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CONTENTS FOR MARCH

EDITOR'S NOTE.—Because of the tremendous importance of the problem of social security in the governmental picture of the next few years and the many requests for information on the subject received by the National Municipal League, the REVIEW is devoting the major portion of its March and April numbers to this problem. Grateful appreciation is due Dr. Joseph P. Harris, Director of Research of the Committee on Public Administration of the Social Science Research Council, who is serving as special editor of these issues.

The April REVIEW will discuss *Public Welfare Measures Under the Social Security Act* and *Health and Social Security.*

SOCIAL SECURITY

The contents of the NATIONAL MUNICIPAL REVIEW are indexed in the *Engineering Index Service,* the *Index to Legal Periodicals,* the *International Index to Periodicals* and in *Public Affairs Information Service.*

Editorial Comment

March

NATIONAL MUNICIPAL REVIEW

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Can We Secure Social Security?

THE federal social security act is the central core of the program of the administration to cope with destitution and economic insecurity in the future. This program must be considered in the light of the huge relief problem in recent years—a problem which quickly exhausted local and state financial resources and now threatens the financial position of the national government. The various features of social security legislation are discussed critically but constructively in the following special articles contributed by outstanding students of the problem. Will this program, adopted on the upturn of business recovery, stand up during years of prosperity and afford a reasonable degree of protection when the next business recession sets in? Can we as a nation, utilizing our traditional governmental institutions, safeguard against future widespread destitution, such as has prevailed within recent years? Is the program as represented by existing federal and state legislation sound? Or does it need substantial modification? How will it be administered? These are some of the fundamental problems implicit in all of the following articles.

It is hardly necessary to call attention to the great significance of this program. This is readily apparent when we consider its size, the millions of workers affected, the cost in terms of billions of dollars annually, as well as the fact that several features of the program are new to our governmental institutions.

The social security program includes three new governmental activities of tremendous size, namely, unemployment compensation, old-age insurance, and non-contributory old-age pensions. The two forms of social insurance will cover from twenty million to thirty million workers, and when the maximum contribution rates become effective, will involve annual contributions of approximately three billion dollars. In addition, the expenditures for old-age assistance (commonly called pensions) are estimated to reach nearly a billion dollars annually within a very few years. These figures, which do not include aid to dependent children, other federal aids provided in the social security act, or other forms of social insurance which may be adopted later, exceed the normal budget of the federal government.

These activities in the field of social insurance and public welfare will constitute one of the largest governmental enterprises ever undertaken. Their administration is of great importance. It is generally recognized that the administrative provisions are the weakest point

in the social security program. Experience abroad indicates that the success or failure of social insurance turns upon its detailed administration. European countries have been able to assume a nonpartisan and reasonably efficient administration from the outset. This is not true of this country, particularly of state and local governments.

With the exception of old-age insurance, all of the activities included in the social security program are to be administered by the state and local governments under federal supervision. This division of authority gives rise to many difficult administrative problems. It is, however, in keeping with our federal form of government and will permit a degree of federal supervision, with state and local administration. The supervisory authority granted to the federal agencies under the social security act is less than that of other recent federal-aid laws, and will probably need to be strengthened after experience under the law.

SOCIAL INSURANCE

Of the two forms of social insurance —old-age benefits and unemployment compensation—the former is set up as a federal activity, while the latter is to be administered by the states and under state laws. The federal act, following the precedent of the inheritance or estate tax law, levies a uniform payroll tax upon employers throughout the country, and allows partial credit for contributions to state unemployment compensation plans. It also includes grants to the states for administrative costs under such plans.

The administrative problems involved in setting up social insurance applying to about twenty-five million workers and their employers are very great. Employers will object not only to the cost, but to the requirements of records and reports. It is of utmost importance that the collection of contributions or taxes for these two forms of social insurance be unified, so that administrative costs may be kept at a minimum, and employers be freed from the necessity of making several different reports to different agencies.

No state has had any experience in the administration of unemployment compensation, except the brief experience of Wisconsin, in which benefits have not yet become payable. The administration of unemployment compensation will be closely identified with the public employment offices. In foreign countries the employment offices act as the field organization for the administration of unemployment compensation. The federal social security act provides as a condition for approval of state plans that unemployment compensation must be paid through employment offices or other agencies approved for the purpose by the social security board. In the states of Massachusetts, Alabama, California, and Washington the employment offices have been placed under the newly formed unemployment compensation commissions, while in New York, New Hampshire, Wisconsin, and Utah the administration of unemployment compensation is placed in the same department which has charge of the public employment offices. All of the state laws in this country, as well as foreign laws, require registration at the public employment office as a condition of the receipt of unemployment benefits, and provide that refusal to accept an offer of suitable employment disqualifies an applicant. The development of an adequate and competent employment office system is essential to the success of unemployment compensation.

WELFARE ACTIVITIES

The federal social security act marks a new policy of federal aid on a permanent basis for certain categories of welfare activities. Federal aid has become well established in this country

for a wide variety of activities, but, except upon a temporary and emergency basis, has not been extended to public welfare or relief activities. This new policy, which is of great significance, breaks with our traditional policy that the care of the poor is exclusively a local and state responsibility. The mounting cost of relief, which has swamped local and state governments, has forced the adoption of this new policy. The future will probably see its extension to other welfare activities. It may be carried too far and saddle on the nation an excessive charge for relief. On the other hand, it may be wisely developed with adequate local responsibility, coupled with a reasonable degree of federal supervision and insistence upon minimum standards of administration, resulting in a notable development of public welfare administration. The success or failure in the several activities now marked out for federal aid will influence future expansion of federal aid for welfare activities. It is an experiment in one of the oldest government functions. If it does not succeed, the alternative is probably direct federal administration of a large part of public welfare.

Old-age assistance is by far the largest welfare activity to receive federal aid. If the estimates of future costs are substantially accurate, federal expenditures for this purpose within a few years will be much larger than any previous federal aid—in fact, larger than all previous federal aids combined. Not only is this true, but federal aid for old-age assistance is provided on an entirely new policy of unlimited matching (except the limit of $15 per month per person) of whatever expenditures the state and local governments make for the purpose. Already forty states have enacted old-age assistance laws. With the enactment of the social security act, providing for 50 per cent federal aid to the states for this purpose, without any limit as to the amount which any state may receive, and with the widespread movement for old-age pensions, it may be anticipated that the expenditures for old-age assistance will greatly increase in the immediate future. According to the estimates of the actuaries of the Committee on Economic Security, by 1940 the number of persons receiving state old-age pensions will be 2,746,000, and the annual total cost $836,000,000. The estimates for later years are considerably higher.

ADMINISTRATIVE PROBLEMS

The future of social security in this country depends largely on how these huge activities are administered. It is, of course, to be expected that substantial amendment of federal and state legislation will be necessary in the light of actual experience. The greatest danger to the program is not the anomalies which will creep into early legislation, nor the opposition of certain groups of employers with a narrow social outlook, nor even the threat of an adverse constitutional decision, but is that of political and incompetent administration. Social insurance and public welfare activities cannot be successfully administered by temporary, incompetent, and untrained political employees. It is extremely unfortunate that the federal act specifically prohibits the Social Security Board from establishing any minimum personnel standards, including removal from political interference. This absurd limitation, which is an exact reversal of recent federal aid legislation, should be repealed at the earliest opportunity, but in the meantime the weakness of the federal law makes it imperative that state legislation provide adequate safeguards against the political prostitution of social security administration.

JOSEPH P. HARRIS

Social Insurance Abroad and At Home: The Background of Social Security Legislation

The social security program follows the experience of other industrial countries of the world in adopting social insurance

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With the federal social security program there has developed in the United States a widespread interest in social insurance. Knowledge of this institution, a major essential in any program directed at the economic security of the wage earner, has been previously confined for the most part to sociologists and students. Indeed, it has been remarked with some justification that many Americans who were thoroughly familiar with our workmen's compensation provision for industrial accidents were not aware that this institution, borrowed by us from Europe, was but a branch of a larger legislative scheme called social insurance. Nor did they know that the latter provided a rounded out protection or security to workers' families in the event of illness, death, old age and unemployment, as well as of industrial injury of the wage earner.

The enormous scale of public relief which recent depression years has necessitated, has focused public attention at last upon the inherent wastefulness of the relief or "handout" method. The futility of our "dole" technique inherited from Elizabethan England has, to be sure, been generally recognized by intelligent social workers for at least a generation. Their experience has convinced most of them that charity, while perhaps a private virtue, and, in the absence of alternative, a public necessity, in its effect approaches the status of public vice. This conclusion is related to the following facts. Charitable assistance involves not only the heavy initial cost of the bread, soup, and drugs dispensed but the much heavier though less measurable social cost involved in the unfortunate psychological effect of "relief" upon many of its recipients. Striking, as it so often does, at the essential self-respect of the worker, it undermines that intangible element of character which is essential to a wholesome, sturdy society. Pauperization compounds its original cost. Where it takes place on a large scale, it is a serious hazard to the entire community.

All social groups perforce have a direct interest in the substitution of public provision directed at the *prevention* of destitution for that of public provision for support or relief of persons to whom destitution has become a fact. The interests of society are not to be separated from the individual worker's need of economic security.

The essential elements in a legislative program of security for the wage-earner are two. One, that of minimum wage, secures the employed worker against destitution from sweated wages by setting a standard below which no wage is permitted to fall.[1] The other

[1]This was, of course, attempted on a nation-wide scale in the codes of the N.R.A. which came to an end with the adverse decision of the United States Supreme Court last spring. See *A.L.A. Schechter Poultry Corp. v. U. S.* 295 U. S. 495.

element, social insurance, is designed to secure the working family against destitution due to physical disability, unemployment, and death. Since most destitution is due not to sweated wages but to losses entailed by disability, death, and lack of work, social insurance is much the more important factor in economic security planning.

The essential principle of social insurance is that pooling funds shall be accumulated, while workers are well and at work, from which they will be cared for when they cannot labor or are unable to obtain employment. Found in the rules of the medieval guilds, continued in the mutual benefit societies of Europe that followed in their wake, excellently developed in the customary provident funds of the mining villages, this principle did not begin to find general expression through public legislation until the middle of the nineteenth century.[2] It did not find *effective* expression in any country until thirty years thereafter. General European acceptance of the principle moreover dates well into the twentieth century. Its complete independence of political institutions is indicated by the fact that it is functioning in Democratic Britain and France, Fascist Italy, Nazi Germany, Soviet Russia, and the absolute monarchy of Japan, as well as in all the lesser countries of Europe from Scandinavia to the Baltic and the Mediterranean.

INDUSTRIAL ACCIDENT INSURANCE AND HEALTH INSURANCE

The pioneering social insurance country, Germany, adapted its first venture, which was in the field of health and industrial accident insurance, largely from the pattern of the provident funds found in the ancient mining communities in France, Austria, and Germany. Recognizing, as did the ancient mining funds, that physical disability of the worker is a twofold economic calamity which not only cuts off the income of the family but also adds to its expenses by necessitating medical and other remedial care, both cash and medical benefits were provided. Insurance was made compulsory, as indeed it had been in all but name in the mining communities, where ancient custom exercised an effect as compelling as any statutory law. Both workers and their employers contributed to the support of the insurance.[3] Benefits were payable for a period of thirteen weeks, thus leaving illnesses and accidents of longer duration outside the scope of the scheme.

The following year (1884) a companion measure was enacted which provided for fatal industrial accidents and those causing disability in excess of thirteen weeks. This provision was financed exclusively by contribution from employers. It was known, moreover, as the industrial accident insurance measure, while the first enactment, although applicable alike to sickness and industrial accidents, was termed sickness insurance. This fact had an interesting result.

The second measure, the so-called industrial accident insurance, commanded earlier attention in other countries than did the pioneer venture.[4] Interest in the industrial injury problem be-

[2]At this period, prompted by the widespread economic distress that was produced by the economic changes attendant upon the industrial revolution European countries began to give attention to the possibilities of preventing destitution through workingmen's insurance.

[3]The workers were divided into wage classes, for each of which classes a "basic" or median wage was fixed. Contributions were fixed as a percentage of this basic wage.

[4]By virtue of its more spectacular aspect and because it was a relatively new problem in the early periods of mechanization, the industrial accident aroused general public interest sooner than did any of the other risks to the worker's earning capacity and economic and physical well-being.

came widespread in the eighties. Legislation was achieved in several of the chief European nations in the nineties and in practically all of the remaining continental countries in the following decade. This legislation was strongly influenced by Germany's industrial accident insurance law and in consequence all the measures accepted the principle that the employer should pay the entire cost of such provision. As companion combination industrial accident and health insurance arrangements were adopted in only a few cases, many of the laws covered *all* industrial accidents and not just those of long enduring disability. Thus it became a standard of provision for industrial accidents that the employer should pay the entire premium.

Provision for industrial accidents, or to use the English term for this branch of social insurance, workmen's compensation, is today an accepted institution in all parts of the civilized world—both eastern and western. The two states in the United States, Arkansas and Mississippi, that still are without a compensation law on their books can find company only among fairly primitive lands which have but a casual connection with the rest of the world.

Compulsory insurance against sickness (including, of course, non-industrial accident), the second branch of social insurance to receive general European attention, made slower progress. This was partly due to the fact that a competitive type of insurance against sickness, "voluntary subsidized insurance," developed a considerable following. Denmark was the pioneer and has been the most successful exploiter of this technique. Sweden, Belgium, and tiny Iceland followed suit as did France and Switzerland. The four countries first named, while dissatisfied with results, have not yet abandoned the principle of "inducement" for the compulsory principle.[5] France has shifted to compulsory health insurance while Switzerland has a hybrid system, some of her cantons having adopted compulsory schemes. All the countries of major industrial importance in Europe, however, including Great Britain, France, and Czecho-Slovakia, as well as Soviet Russia and most of the lesser European nations, Japan in the Orient, and one of the South American states (totalling twenty-two countries) now protect their wage earners by compulsory health insurance schemes.

No two of the schemes are exactly alike. All systems, however, accept the fact which is implicit in an analysis of sickness as an economic hazard, that adequate protection must both maintain the family and also furnish remedial care to the worker. In short, all systems provide both a cash benefit as a substitute for the sick worker's lost wage and "medical" benefits for the relief of his physical condition. In recognition both of the increasing emphasis upon public health and the increasing cost of what is deemed adequate care in time of illness, and also of the fact that sickness of dependents is the wage earner's economic problem, most of the schemes now include medical benefits for his dependents as well as for the insured worker.

The benefits themselves have been added to and liberalized and a strong movement for their further improvement is present in most countries. Growing acknowledgment of the importance of protecting the physician in his right to practice under health insurance schemes is being manifested today. The principle, accepted twenty-five years ago by Great Britain when she put her compulsory health insurance law into operation,[6] that every licensed physi-

[5]Denmark, however, has set up a *compulsory* invalidity insurance scheme (1921).

[6]Enacted in 1911.

cian should be permitted insurance practice at his option and that every insured worker should have free choice of physician, has proved a conspicuously sound one.

OLD AGE AND INVALIDITY INSURANCE AND PENSIONS

The third form of social insurance provision put into operation by Germany, old age (and invalidity) insurance (1889), found, as did compulsory health insurance, a competing technique developing in Denmark. In this instance, however, it was not voluntary insurance but a totally different type of security, gratuitous old-age pension provision. The gratuitous pension was born of an entirely different philosophy than was old-age insurance. The latter rested upon practical facts: (1) that most wage earners did not and often could not accumulate sufficient savings to assure their independence during superannuation; and (2) that small contributions from the workers and their employers could under governmental control build up pooled funds which, with government subsidy, would provide wage earners with old-age security to the advantage of the individual and of the community. The gratuitous pension theory, however, was an expression of the belief that those worthy workers who reached the end of their earning period without a competence deserved assistance from the state in their old age in return for their contribution to the community life during their working years. The *insurance* pension being based upon contributions was, of course, paid without reference to either the character or the means of the recipient. The *gratuitous* pension, in contrast, was available only to the deserving old person and only on proof that his own means were inadequate for his support. This provision was definitely differentiated from poor relief, however, in that the applicant was never required—in contrast to our state assistance laws—to prove that he had no relatives able to support him. His eligibility was determined by exclusive reference to his own means without forcing his dependence upon his children.

Aid "to the aged and deserving poor" found initial acceptance not only in Denmark but in France and Great Britain as well as in the Danish dependencies, Greenland and Iceland, and in most of the British Dominions.[7] Its adoption by the English-speaking countries greatly influenced thought and legislation in the United States in the first decades of this century. Several basic shortcomings implicit in this type of provision, however, revealed themselves as experience with this type of old-age security accumulated. First, the requirement that need of assistance should be proved by the applicant proved objectionable on two scores. It inevitably introduced an administrative element which, however tactfully handled, was associated with poor relief administration and was offensive to the self-respecting, worthy worker. In addition, it tended to discourage rather than encourage accumulation since the less a man had saved the higher pension he received and vice versa. Thus, it had just the opposite effect of an inducement to self-help and was basically at war with the principle upon which our present society is builded.

Second, the necessity that the applicant prove that he had been a worthy citizen, which was an essential element in the philosophy upon which this type of assistance rested, presented practical difficulties. Sitting in judgment upon persons at a time of life when they

[7]Canada, Newfoundland, Australia, New Zealand, and South Africa. Australia combines invalidity pensions with old-age pensions.

were old and helpless proved unappealing even to hardened administrators.

Attempts were made in the various countries to meet the problems raised by the "need" requirement, through amendments which permitted full pensions even when certain small accumulations had been achieved by the applicant. Repeated changes, in response to public pressure, somewhat liberalized these provisions.

The worthiness requirement, moreover, was to a large extent gradually whittled away by amendments which cut down the disqualifying clauses. In result, in each of the gratuitous pension countries, the assistance lost most of its character as *"reward* for the *worthy"* and came to approximate *relief* for the *needy*. The two most important countries, Great Britain and France, which had accepted its original philosophy came to the belief that in the changed form it was a less satisfactory old-age security device than contributory insurance. This, moreover, came to be a general judgment, as is evidenced by the fact that in the post-war period nearly five times as many countries have enacted compulsory old-age (including invalidity) insurance legislation as have instituted gratuitous pension schemes.[8] The preference for the contributory plan was due partly to the poor relief flavor of the gratuitous pension and partly to the observation that such pensions over a period of time caused a constantly increasing drain upon the treasury.[9]

The wiser minority, following Great Britain's lead,[10] combined a supplementary gratuitous pension plan with the basic device of a contributory annuity scheme designed to reach wage earners who form the bulk of the working population. The supplementary gratuitous pension arrangements are in acknowledgment both of the fact that some persons of high income may come to financial grief in their old age and also of the administrative limitations of the compulsory contributory plan. It has been found practicable[11] to reach by compulsion only wage earners whose contributions can be collected through their employers. All the enforcement problems of the poll tax stand in the way of effective compulsion of the self-employed, albeit their need of systematic saving for old age is obviously as great as that of the workers in the employ of another.

The annuities provided in the schemes abroad have been small even viewed from the standpoint of foreign costs and standards, and have not been conditioned upon retirement from labor. In fact their size would in many cases preclude the insistence upon refraining from labor since this would be practicable only if the worker had some supplementary income. The annuity has been looked upon as a substantial backlog securing bare subsistence rather than as a source of complete and comfortable maintenance. Current discussion abroad indicates a questioning of this attitude and a substantial opinion urges more generous annuities designed,

[8]Only five countries—Canada, South Africa, Uruguay, Norway and Greenland—have adopted gratuitous pensions.

[9]Whether or not it was caused by a feeling that there was less reason for saving with the promise of an assured pension, the fact is that the percentage of pensioners steadily increased.

[10]When after nearly twenty years' experience with gratuitous pensions, she turned to contributory old-age insurance in 1925, she retained her gratuitous pensions to meet the situation of the aged indigent not reached by the contributory scheme.

[11]Only Sweden has attempted "popular" old-age insurance. Practically everyone between sixteen and eighteen is required to pay annual contributions. Delinquent contributions have run high (averaged 15 per cent) especially in industrial districts (40 per cent and 50 per cent in certain districts) and as these are charged to the municipalities this has brought serious problems to the local authorities. See *International Labor Review* vol. 9, p. 179 et seq.

as are those provided in our recently enacted federal social security act, to remove men in the older age groups from the labor market.

SURVIVORS' INSURANCE

Protection of the dependents in the event of the wage earner's death from industrial injury is, as has been indicated previously, included in the industrial accident provision or workmen's compensation laws. Similar provision in the event of death from other causes, i.e., survivors' insurance, was first instituted in connection with old age and invalidity pension systems for selected industrial groups in Belgium, France, Austria, and Germany. The first *general* survivors' insurance scheme was set up in 1911 by the usual pioneering social insurance country—Germany.

Again, it is found that gratuitous pensions, this time for deserving and needy widows with children, offered competition to the contributory insurance method. New Zealand in this same year (1911) set up a system of such pensions as a means of meeting the situation of the family left destitute by the death of its wage-earning head. Denmark almost immediately followed New Zealand's example and over ten years later an Australian province, New South Wales, did likewise. At the same time a movement for mothers' pensions in Canada and the United States resulted in enactments by the Canadian provinces and by nearly all of the American states. Assistance grants, which all too often for lack of financial provision were either not available at all in our states, or else were shockingly inadequate, were promised by these laws not only to needy widows with children but to other needy mothers, whose husbands either had deserted them or were invalided or were incarcerated in penal institutions.

Meantime, in fourteen countries, including Great Britain, France, Czecho-Slovakia, and Holland, survivors' insurance had been attached to old-age and invalidity insurance provisions covering the general industrial population. Several other countries had amalgamated such protection for survivors with old-age and invalidity insurance for special industrial groups.

Experience abroad with survivors' insurance and in this country with gratuitous assistance to needy mothers suggests that here as with the problem of old age, we need and ultimately will have complementary institutions—survivors' and invalidity insurance to cover the insurance risks which threaten to permanently destroy the wage earner's income and gratuitous assistance or pensions to needy mothers who are widows or are victims of the moral delinquency of their deserting or otherwise defaulting husbands.

No one familiar with the extent of our dependent children problem, even assuming that the American attitude toward taxes for social service will come to be the more acquiescent one of the British citizen, can expect adequate provision for all dependent children until the insurable part of the situation is placed squarely upon a social insurance basis.

UNEMPLOYMENT INSURANCE

The last hazard to the worker's earning capacity to be made the subject of compulsory social insurance provision was unemployment. In this instance the pioneer was Great Britain rather than Germany. Following a series of experiments with work relief and a poor law "Royal Commission" report on continental experience with the subsidizing of unemployment insurance arrangements (i.e. out-of-work benefits) of the trade unions, Great Britain set up in 1909 a network of centralized public

employment exchanges. This was designed to get the labor market in hand in avowed contemplation of undertaking unemployment insurance. Then two years later, in 1911, she initiated a compulsory contributory unemployment insurance scheme for seven selected industries. Equal and uniform contributions were exacted from each insured worker and his employer, and the exchequer was obliged to contribute approximately one-third of the combined contributions. Benefit was paid for a maximum of fifteen weeks and not more than one week's benefit for each five weeks' contribution could be paid.

The first year and a half of this insurance experiment happened to be an exceptionally prosperous period and a substantial reserve was on hand when war was declared in August 1914. During the war period, there was, of course, a shortage of labor rather than unemployment and by 1920 this reserve had reached twenty million pounds. In that year, just before the hardest and longest industrial depression she has ever experienced, Britain extended the coverage of her unemployment insurance act to cover her entire industrial population. The following years witnessed a series of rapid shifts, changes and reshifts in the size of benefits, the length of benefit periods, and the amount of government contribution to the unemployment insurance scheme, supplemented by a state of increasing debt as Great Britain endeavored to adjust her insurance scheme to the serious unemployment problem which world-wide post-war adjustments entailed. Had broad compulsory schemes been in effect during the "fat" employment years of 1912 to 1920 to help out the lean years in the twenties, her problem would, of course, have been greatly simplified. Despite this unfortunate timing of legislation and depression it is the conviction of opinion of every shade in Britain, be it conservative, liberal, or labor, that without the stabilizing aid of unemployment insurance, weathering of the twenties would have been difficult if not impossible.

It is now planned in the immediate future in a special separate scheme to extend unemployment insurance to agricultural workers, the largest group excepted under the 1920 act.

Meantime compulsory unemployment insurance has been accepted by Queensland in Australia (1922), by Italy (1919), Austria (1920), Soviet Russia (1922), Poland (1924), Bulgaria (1925), and Germany (1927). The scheme in Germany, while weakened, has at least survived the Nazi regime. Not counting the ten million workers of the U.S.S.R.,[12] compulsory unemployment insurance measures applied in 1935 to about forty million workers. This number will be added to by the Canadian enactment of June 1935 which sets up a dominion system patterned largely after the British scheme.

In addition, voluntary subsidized systems, which have meant to a large extent in practice the subsidizing of trade union unemployment funds, have been set up in nine[13] countries, giving unemployment insurance protection to about three million workers. Switzerland, as in the case of health insurance, has a hybrid system, some of the cantons having compulsory measures.

The chief exclusions in unemployment insurance coverage have been household domestic service and agriculture. It may be noted, moreover, that in recognition of the fact that continuity of contribution is a basic requirement in a properly functioning

[12]Benefits suspended since October 1930 because of a declared labor shortage.

[13]Belgium, Czechoslovakia, Denmark, Finland, France, Netherlands, Norway, Spain, Sweden.

system, no system outside of this country has limited its operation to plants of a certain size.

In all schemes, not only is full benefit dependent upon fairly continuous insurance, but a worker's eligibility to any benefit depends upon contributions in the period immediately preceding unemployment Since many workers move back and forth from large to small plants, omission from the scheme of employees in establishments with less than a given number of employees causes certain continuously employed workers to be in and out of the insurance scheme. Their contributions, as a result, in many cases are bound to be in the nature of periodic penalties which will never produce right to benefit. It may be anticipated that the exceptions based on size of plant now present in all the ten American acts except that of the District of Columbia will be removed by amendment.

Most of the compulsory systems require contributions not only from the insured workers and their employers, but also from the public treasury. While the length of benefit period, the amount of benefit, and the conditions for the receipt of benefit vary from law to law, certain principles have found universal acceptance. The right of the worker to refuse work made available by a trade dispute is under all systems guaranteed, as is his right to refuse employment to be performed under sweated conditions or at subnormal wages.

In administration all systems have emphasized utilization of the employment agencies as essential to the success of the insurance. Effective control of the labor market is obviously necessary if benefit payments are to be restricted to situations where there is actual lack of work rather than mere lack of information about existing opportunities of employment. Further, as demonstrated by experience abroad[14] with alternative methods of testing whether the insured applicant is genuinely seeking work, the only practical test of this crucial fact in eligibility to unemployment benefit is through offer of suitable work. The placement bureau is the only administrative agency that can be in a position to put the insured to this test.

The keeping at administrative headquarters of an individual case record of each insured person has been universal. Each worker has been given an insurance book in which his weekly contributions (and those of his employer) have been evidenced by special stamps through the sale of which the contributions due have been collected. Indeed, since the worker's rights depend upon his own contribution record and are constantly accumulating, however often he may shift from job to job, individual case records are a *sine qua non* of administration. Further, the use of the insurance book, which is kept on deposit with the employer when the worker is employed and on file at the employment exchange when he is shifting jobs, gives the placement agency opportunity to check compliance and facilitates enforcement procedure.

In only one of the countries which subsidize voluntary plans, Denmark, is the employer required to contribute to the cost of unemployment insurance. In the others the workers and the state share the entire burden.[15] In only three

[14]Only after a long period of requiring the worker to prove his genuine desire for work by personal research did Great Britain abandon this procedure. The constant stream of applicants "going the rounds" caused serious annoyance to employers and produced negligible work opportunities. In 1930 the British act was amended to put upon the employment exchange the responsibility of deciding by offer of work whether the claimant was genuinely seeking employment.

[15]Except in the establishment funds in Switzerland, toward which employers voluntarily make a contribution.

of these countries is observance by the funds of the principles mentioned in a previous paragraph made a condition for receipt of subsidy. Since, however, the great majority of funds in all the voluntary schemes are trade union organizations, the principle of protection from sweated work and strike breaking is widely observed in all voluntary subsidized countries.

The average benefit period of the voluntary funds is much shorter than that of the compulsory system, as might be expected of schemes most of which function without contributions from employers.

SUMMARY

In appraising the various social insurance systems, it may be stated at the outset that like all other institutions they do not function perfectly. It must be further acknowledged that their many past amendments and the current efforts at further change of their provisions evidence the fact that their details need constant adjustment in the light of experience. It is universally believed abroad, however, by the majority in all economic and social groups, that the social insurance schemes, despite imperfections, have made a very great contribution to community well-being. Except in Nazi Germany, the definite continuous trend has been toward the broadening of the coverage of the various social insurance branches and the liberalizing of the benefit features.

In this past year through federal enactment in the United States, provision for unemployment compensation schemes has been promoted, and a contributory retirement annuity scheme has been instituted on a straight national basis. In addition, substantial financial aid has been made available to the states for their programs of assistance to needy aged, dependent children and other selected groups. Review of experience elsewhere gives the welcome assurance that the social insurance method has established itself. The federal government in promoting, as it has in the social security act, a deliberate expansion of this security device which made its initial appearance in this country in our workmen's compensation laws, is taking a step that is backed by the informed judgment of the rest of the Western world.

THE CONSTITUTION IN THE TWENTIETH CENTURY

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March 24—"The Constitution and the New Deal." Donald Richburg, Attorney; former Administrator, N.R.A.

March 31—"The Spirit of the Constitution." William Hard, Publisher.

April 7—"A Socialist Looks at the Constitution." Norman Thomas, Director, League for Industrial Democracy; Socialist Candidate for President, 1928 and 1932.

April 14—"Getting a New Constitution." W. Y. Elliott, Professor of Government, Harvard University.

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Economic Implications of the Social Security Program

More than half the working population given substantial protection against old age and unemployment under the terms of the social security act

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PROBABLY no other legislative enactment in the history of the United States has had more profound economic implications than the social security act. As a welfare measure it is designed to afford substantial protection for more than half the working population against the major hazards of life—old age and unemployment—and to make more generous provisions for dependent children, for maternal and child health services, and for extension of public health and welfare activities. As a taxation measure the social security act imposes new burdens in the form of taxes on payrolls and wages which, within fifteen years, are expected to yield as much as the total tax and customs revenues of the federal government in the year 1934.

An attempt to assess the economic effects of a program of such magnitude and diversity at the moment of its inauguration, however, can be only hypothetical and speculative. Since the program will become effective only gradually, its full impact upon our economy will not be felt for several years.

The various public assistance provisions of the act are comparatively simple in nature, being designed through traditional grants-in-aid to provide a further stimulus to the extension of state public welfare to the unfortunate and needy. With the exception of old-age assistance, the cost of these services is not large and may be expected to increase only gradually. The burden of these services on the state and federal taxpayer represents little more than a transfer and equalization of costs which are already a charge upon our economy.

The provisions of the social security act looking toward old-age security and unemployment relief are of far reaching economic and social significance. Between 25,000,000 and 30,000,000 workers, or more than half of the nation's gainfully occupied population, will be directly affected, as taxpayers and beneficiaries, while the indirect effects will be felt by the entire population.

Old-age security is provided for in the act by two entirely different methods. Old-age assistance, which becomes effective immediately, involves federal grants to the states for old-age pensions to needy persons over sixty-five years of age on a 50-50 matching basis with a maximum federal contribution of $15 per month. The aim of this provision is to ensure promptly a reasonable minimum of comfort to men and women over sixty-five years of age who are without means of support. Approximately 1,000,000 old persons are now dependent upon public charity, and the number of needy old people is bound to

increase rapidly, not only because of the loss of savings and jobs during the depression and the inability of children to support their parents, but because the number and proportion of old people in the population are growing steadily. In 1930 there were 6,634,000 persons over sixty-five out of a total population of 122,775,000. By 1960 the number will have more than doubled and the proportion will have increased from 5.4 per cent of the population to 9.3 per cent.

OLD-AGE PENSIONS

With the passage of the social security act the number and scope of state old-age pension plans have increased greatly. In 1934 there were thirty states and territories which paid a total of about $32,000,000 to 236,000 pensioners. In 1936, with federal aid, twelve additional states have passed pension laws; the number of pensioners will probably be three times as large as in 1934 and total pension payments will probably exceed $200,000,000.

Within five years total pension payments under old-age assistance plans will amount to nearly $1,000,000,000 annually; the ultimate cost, with no other means of providing old-age security and assuming a final dependency rate of 50 per cent and average pensions of $25 per month, would be nearly $3,000,000,000.

The maximum cost of old-age assistance, however, will probably fall far short of this latter sum in view of the fact that the social security act establishes a comprehensive system of old-age insurance for those engaged in certain industries, employing about half the total number of gainful workers, which is expected eventually to carry the major share of the cost of providing security for the aged. Benefits or annuities under this provision of the act will be paid to qualified individuals who reach the age of sixty-five and retire from employment after January 1, 1942. These payments, it must be remembered, will be paid as a matter of right and in proportion to earnings in contrast to old-age pensions which are a form of public charity paid in accordance with need. These federal old-age benefits are to be financed by means of special taxes assessed equally against the employer and employee, commencing with an aggregate tax of 2 per cent on wages of $3,000 per year or less in 1937 and rising gradually to 6 per cent in 1949. Benefits will vary from $10 to $85 per month depending upon average earnings and years of employment before retirement. Thus the law provides a monthly benefit of ½ per cent on the first $3,000 of wages, 1/12 per cent on the next $42,000, and 1/24 per cent on all over $45,000, excluding, however, all wages received in excess of $3,000 in any one year.

Obviously, under this plan, the lower paid workers are treated more generously than the higher paid, and middle-aged workers who are now nearing the retirement age will receive larger benefits, relative to their earnings and contributions, than the younger workers. The federal old-age insurance system, therefore, may be regarded not simply as a system for compulsory purchase of annuities, but also as a means of redistributing income in favor of the older and the lower paid workers.

In spite of the heavy taxes, or contributions, collected in 1937 and subsequent years from workers and employers under the insurance plan, and in spite of the relatively generous benefits payable to workers now approaching retirement age, it will be many years after payments commence in 1942 before average benefits under the contributory system will equal the maximum pensions now payable in most states under the old-age assistance plans. Thus a worker earning $100 monthly must be

employed for eighteen years, and one earning $50 a month, for thirty-five years, before being entitled to a $30 retirement benefit. Therefore, the insurance system created by the social security act, in spite of its heavy taxes commencing in 1937, will not begin to function until 1942 and for ten or fifteen years thereafter will fail to provide benefits as large as the old-age pensions now payable in most of the states.

Since the plan, as finally adopted, contemplates the accumulation of an enormous reserve fund, which in thirty years will be as large as the entire public debt at the present time, it is obvious that tax collections will be far in excess of benefits paid for many years to come. Total taxes collected from employers and employees during the six fiscal years 1937 to 1942 will aggregate more than $3,800,000,000, yet benefit payments in 1942 will amount to less than $53,000,000. In 1943 annuity payments will be less than $100,000,000 but tax collections will exceed $1,000,000,000. By 1950 tax collections will be nearly $2,000,000,000 and benefit payments only $500,000,000, but the reserve fund will have grown to more than $14,000,000,000.

Thus these sections of the act are of more immediate importance as a fiscal than as a security measure. Whether the payments made by employers and employees are called "contributions," "taxes," or "savings" makes very little difference; they are flat percentage deductions from the current income of workers, on the one hand, and from the payrolls of employers, on the other. Since the latter will be largely passed on to consumers in the form of higher prices or passed back to employees in the form of lower wages, the burden of these payments will be a charge upon that part of the income stream which goes largely into the purchase of consumers' goods. A regressive tax of this nature can hardly be expected to have beneficial effects upon the standard of living, especially when it is realized that it will be super-imposed upon a federal fiscal system which derives most of its revenue from regressive consumption taxes rather than from progressive income taxes.

UNEMPLOYMENT INSURANCE

The social security act also imposes an additional payroll tax on employers with more than seven employees commencing at 1 per cent of total payrolls in 1936 and rising to 3 per cent in 1938. The purpose of this tax is to encourage states to adopt unemployment insurance systems, since the act permits employers to credit the amount of contributions paid into a state unemployment fund up to 90 per cent of the federal tax. Although the Social Security Board must approve state plans before employer contributions may be offset against the federal tax, the states will be allowed wide latitude in their laws and administrative practices. No standards are established as to the amount and duration of benefits, the length of qualifying and waiting periods, or the ratio of qualifying periods to benefit payments. Unemployment insurance, it must be remembered, does not provide a complete answer to the problem of unemployment. Even at its best a system designed primarily to care for transitional and seasonal unemployment cannot go far in meeting the tragedy of depressional unemployment. At its worst there is grave danger that an unemployment compensation system which is unwisely designed and ineptly administered may create unemployment as well as relieve it.

But, as stated in the report of the senate finance committee, "unemployment compensation does have real value for many workers. In normal times most workers will secure other employment before exhaustion of their

benefit rights. Very recent British reports indicate that even during the present period of depression something like 55 per cent of all insured workmen who have become unemployed have found other work within three months. For the great bulk of industrial workers unemployment compensation will mean security during the period following unemployment while they are seeking another job, or are waiting for a return to their old position. In most cases the compensation they will receive will be all that they will need. While unemployment compensation will not do away entirely with the necessity for relief, it should very materially reduce the costs of relief in future years."

It is to be expected that the effect of the federal tax will result in the adoption of unemployment compensation systems by most or all of the states, financed by a 3 per cent contribution from employers' payrolls and supplemented in many cases by employee contributions. Clearly there will be wide variations in the nature of the state laws, in the coverage provided and in the effectiveness of their administration. The disadvantages of this situation are obvious; on the other hand the experience of the states may provide a sound basis for the ultimate development of an adequate system of unemployment relief.

Like old-age insurance, unemployment compensation will probably be limited to the occupations and industries subject to the federal tax, which means that more than half of the gainfully occupied, including the self-employed, farmers and farm workers, domestic labor, and certain other groups will be excluded from coverage and will therefore be dependent in the future as in the past on their own resources or on relief. Then too the federal tax is imposed only on employers of eight or more so that most of the state laws will probably also exclude workers in small establishments. This distinction on the basis of size of establishments creates not only administrative difficulties, but also serious competitive problems in the case of retail trade and similar types of business in which the typical concern may be close to the size limit. Thus an employer with eight or nine employees may add to the unemployment problem by discharging workers, for by so doing he may escape the entire amount of the tax. Even in the case of the larger establishments the payroll tax may have a slight effect in retarding re-employment although the burden is probably not large enough to cause wholesale discharge of workers. On the other hand, many of the state laws provide a definite incentive, through merit rating, for stabilization of employment.

One of the most important problems which may arise in connection with unemployment compensation is that involved in the accumulation and liquidation of the reserve fund. In theory, at least, contributions will exceed benefits during a period of business activity so that a substantial reserve will be accumulated which, according to the act, must be invested by the treasury in federal obligations. With the onset of depression and the increase of unemployment these securities will be sold and the proceeds paid out as benefits to unemployed workers.

According to estimates of the Committee on Economic Security, the operation of an unemployment insurance system with a 3 per cent payroll tax during the period of post-war prosperity would have involved the collection of $10,000,000,000, of which $8,000,000,000 would have been paid out during the period and $2,000,000,000 would have been available at the time of the cyclical downturn in 1929. Al-

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The Social Security Act: An Appraisal

While comprehensive and containing much that might not have been expected, it omits many things which should be included in a social insurance act

I. M. RUBINOW

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THE appraisal of a legislative measure, like a criticism of a book, may proceed from either or both points of view: first, as to what it actually contains, and second, as to what it omits. There are sins of commission but there may also be sins of omission, and under certain circumstances it may be even more important to point out the latter. The social security act is a very comprehensive and complicated piece of legislation. It contains a great deal that one might not have expected in a social insurance act—which it is meant to be—but also omits many other things which the American people had been led to expect would or should be included in a comprehensive program of "social security." A critical appraisal of the act must consider both what is and what is not in it.

Already the act has become the subject both of enthusiastic acclamation and equally violent denunciation. But the denunciations and criticisms proceed from diametrically opposite camps—one claiming that the act has gone too far and the other that it has failed to accomplish what it had set out to do.

It is no mere quibbling to say that its very title, "The Social Security Act", makes the act very vulnerable. What is more natural than to interpret this as meaning: "This act has brought social security to the American people." How many lectures, sermons, radio addresses, and motion picture reels have been delivered, hailing the act for having accomplished just that! It was the opinion of the press even: "The President's social security act has passed. The matter has been definitely settled"—until the renewal of conflicts around the state capitals about the passage of necessary state acts has forced the press to realize that the matter is not at all as simple as all that. Now what is the matter with the title "Social Security Act"?

To begin with, it is an absurd combination of words. The President's committee in 1934 realized it and did their best to eliminate at least the most obvious absurdity by substituting the term "economic security" which, whether accurate or not, at least means something. Economic security—security against economic consequences of certain risks and hazards—is all the legislation endeavors to accomplish.

But even if it were more modestly described as the "Economic Security Act" it still would be a presumptious title. The act covers certain hazards more—and others less completely. It entirely disregards certain other hazards. It excludes very large groups of working-men from certain of its provisions and also large elements of the American people of other economic

groups. At most it may therefore claim to try to establish a limited degree of economic security against a few of the hazards which may be facing a limited proportion of the American people—roughly a good deal less than one half. In defense of an omnibus measure it was stated that if the bill were cut up into its component parts Congress might still be in session and talking about it. One wonders whether there is not perhaps a more plausible explanation in the desire, through this obvious complexity, to give the bill the appearance of completeness, which in reality it does not possess.

If we agree that the modest purpose of the act is to introduce the beginnings of a system of "social insurance," we will understand that the act, as do all social insurance measures, deals primarily with the working American, the wage worker, the salaried employee, the forty million of them, who with their dependents, constitute some 80 per cent of the American people.

HAS THE ACT MET THE PRINCIPAL ECONOMIC HAZARDS?

What are the main hazards to economic security which face the toiler and against which the method of social insurance has been found effective? Briefly, there are five:

1. Accidental injury or occupational disease resulting from employment, against which workmen's compensation furnishes protection.

2. Illness, including the hazard of maternity and also non-industrial accidents, resulting in loss of earning capacity, whether of long or short duration, and in need of medical aid. These problems constitute the problems of health insurance.

3. Old age, the merciless last chapter of our curriculum vitae, requiring some form of old-age benefit, pensions, or insurance.

4. Unemployment, a subject that today need only to be mentioned, and the proposed remedy of unemployment relief, doles, or insurance.

And finally, 5. Death, whatever be the cause, leaving dependents to be protected either by ample life insurance or widows' and orphans' pensions.

These are the five main branches with numerous subdivisions. Surely the provision of sufficient protection against all of these economic hazards would make for a very much different world. The enthusiastic reception of the presidential message of June 8, 1934, was apparently caused by the hope that all of that was to be accomplished.

To put it bluntly, it was not. First: from the point of view of a complete system of economic security, the total disregard of the problem of accidents, industrial or non-industrial, is open to criticism. The defense that workmen's compensation already meets the problem is not conclusive. Among the forty-five state acts many are admittedly thoroughly unsatisfactory, compensation meager. Literally millions of wage workers are still deprived of this necessary protection.

Second: Very much more important is the entire omission of the subject of health insurance—insurance against illness, which under normal conditions represents the greatest single contributing factor of physical and economic distress. And with it was omitted the whole subject of better organization of medical aid, which is a matter of primary importance not only in health insurance but also in accident compensation, in old-age assistance, and unemployment insurance. As far as twenty years ago it was forcefully advocated by the forerunners of the New Deal. Witness the slogan of those days which few today may remember! "Health insurance—the next step in social progress."

Why, with this background, was health insurance omitted from the program? It was not forgotten. But the obstacle, which neither the advisory board nor the cabinet committee could overcome, was the stubborn opposition of the organized medical profession, or rather of the political leadership of that profession. Perhaps to compensate for, perhaps to disguise this very glaring omission, there are included in the act various health measures which, however useful in themselves, have only a very indirect relationship to a practical problem of social insurance and economic security.

Thus there is the ten-million-dollar appropriation to assist the states in establishing public health services as well as for the investigation of the problems of disease and sanitation by the United States Public Health Service. When the importance of public health is considered, the amount of the appropriation, of which eight million dollars is to be divided among forty-eight states, is not impressive.

The same observation can be made in regard to several other services which were dragged into the bill. There is the appropriation for reviving the old system of federal subvention to maternal and infant welfare work, but why limit it to the maternity and the infant group? In what way are the medical needs of other ages and sex groups less important? Surely no one should object to providing medical and surgical and other care for crippled children. But why limit this care to *crippled* children rather than all *sick* children, and why to crippled children only? The dependent blind need support and no one would want to begrudge it to them, but the problem of the blind is no different from that of any other invalid or permanently or prematurely disabled person.

SECURITY FOR THE AGED

However, all this touches merely upon its failures as a social insurance act. Its three primary objects by which it is to be judged are the provisions for: (1) aged, (2) unemployed, and (3) dependent and neglected children. The social security act is primarily a combination of three acts dealing with these three branches of social insurance with a few minor and quite irrelevant trimmings.

The problem of the aged is dealt with in two different ways, corresponding to the two clearly differentiated systems which had been competing in Europe for over a quarter of a century. Those are: (1) old-age pensions, so-called, and (2) contributory old-age insurance. This competition still goes on. Only a few countries had wisdom enough to see that mere "insurance" offers no immediate solution of the pressing problem of dependent old age, and that, on the other hand, "gratuitous old-age pensions" remained a somewhat prettily disguised system of poor relief. Nearly twenty-five years ago in his book on "Social Insurance" the writer answered the question as to the preference between these two systems by one word, "both." He has consistently preached this doctrine for all these twenty-five years. The President's committee is to be commended for its courage in accepting the answer urged upon it by its experts.

There is less criticism and more enthusiasm for the part of the act which undertakes to assist those already of age requiring help, or soon to reach it, so that the system of old-age insurance can be of little use to them, through federal aid to state old-age assistance plans. The widespread adoption of state old-age assistance laws indicates that the American people have already made up their minds that at least the

totally destitute aged were not to be allowed to starve nor to be forced unwillingly into poorhouses and almshouses. The federal government by offering a substantial subvention will not only induce the backward states to legislate, but would make a more generous treatment of the aged in all the states possible. The inducement is considerable. The average pension payable in this country today approximates $15 per month, in some states a good deal less; obviously an amount insufficient for a decent American standard of existence. Various standards were suggested during the Congressional discussions up to those of the Lundeen bill demanding old-age pensions equal to full wages, and the Utopian plans with $50 to $100 a month, to say nothing of Dr. Townsend's plan of $200 a month to every person over sixty years of age.

Finally the amount of $30 a month, the conventional dollar a day, was determined upon as reasonable, and the government is definitely committed to carry one-half of this burden, one-half of the amount actually paid, provided that half does not exceed $15.

These very generous intentions of the act may remain intentions only, for unfortunately there is no guarantee whatsoever that the average will reach $30, that the states will undertake to pay or continue to pay their share of $15. The original draft of the act gave the federal agency authority to disallow federal aid if the state pension was not adequate to provide "a reasonable subsistence compatible with decency and health." This was stricken by Congress, and there is no assurance that state and local governments will not use federal aid to relieve the local taxpayer rather than to provide more adequate old-age pensions.

OLD-AGE INSURANCE

Much more far-reaching is the complementary system of compulsory contributory old-age insurance (for some reason disguised in the act under the meaningless title, "federal old-age benefits") which provides for annuities at the age of sixty-five, ranging from $10 to $85 a month, depending upon the length of insurance and the earning capacity of the insured. The cost of this insurance is to be borne by equal contributions from employers and employees, beginning with one per cent of the payroll from either in 1937 and gradually rising to three per cent from 1949 on.

The provision for old age made under this system is fairly satisfactory, especially for the younger group, which will profit by the greater length of insurance, provided *that our currency will not be tinkered with again* and that the purchasing power of the dollar will, by 1980, be at least somewhere near the present standard. *A crude inflation and devaluation would rob the insured of all the fruits of their enforced savings.*

The severe and justified criticism has been made that with all its liberality in expenditure of funds today, the administration insisted upon placing the entire burden of old-age security upon employer and employee, without making any contribution to these benefits out of the public treasury, as is done in almost all the foreign old-age social insurance systems. This consideration for protecting the interests of the children and grandchildren of the taxpayer of today unto the third generation is a little surprising.

Yet one may at this time abstain from condemning the entire system of compulsory contributory old-age insurance because of this aspect—as some critics have already done. The acceptance of the principle of compulsory contributory insurance on a national scale—if it is to be sustained by the courts—is too important, represents too great an advance in our social thinking, to be re-

jected merely on one point, that of regular government contributions, which may be added at any time in the future when public thinking has made sufficient progress. As such addition of a government contribution may mean both an increased provision for the aged, or lifting of a part of a burden from the shoulders of industry and the wage worker, there should be no lack of social pressure to achieve the results some time in the future, perhaps before 1949, when the maximum contribution of three per cent from either is to be reached.

The straight-laced effort to make the system "self-supporting" and "actuarially sound", for which the responsibility seems to fall primarily upon the secretary of the treasury, is the result of applying the concepts of private insurance business to social insurance, and is altogether unnecessary. It was brought about by failure of giving due weight to expert opinion, impatient meddling of "statesmen" into technical problems. It was this mixture of technology and hasty statesmanship which is responsible for the creation of the ghost of the forty-seven-billion-dollar reserve by 1980. It is to be hoped that in the next ten years a fundamental reconsideration will be made of this subject, resulting in government contribution (gradually replacing gratuitous pensions) and a drastic cut in the three per cent plus three per cent rate of contribution.

But even if the government treasury was determined to avoid any part of the responsibility for the cost of these annuities, it does not follow that the mechanism of contributory old-age insurance should have been used for the direct purpose of liquidating too quickly the obligation already assumed both by the federal and state governments for gratuitous old-age assistance. Old-age insurance is primarily the purchase of an annuity. The account accumulated to the credit of the individual at the age of sixty-five will determine the size of the annuity that can be granted unless the difference is to be paid from other sources. Now it is quite clear that the total payroll of $3000, even at the full rates of three per cent and three per cent, or a total of $180, cannot justify the minimum annuity of $15 per month or $180 a year from sixty-five until death. Yet this is what the act guarantees to the older insured and it can only do so at the expense of the younger men. This is not "actuarial soundness." It is the perversion of it. It puts upon the masses of the younger assured the burden of retirement of older men, thus relieving the federal government of its responsibility under the old-age assistance provision.

Thus the actuarial bases of the act must be completely revised, but since the payment of old-age annuities will not begin until 1942, there is ample time and will be ample opportunity, provided in the meantime a better understanding of the principles of social insurance is achieved by the legislators.

AID FOR DEPENDENT CHILDREN

Comparatively little has been said about the provision in the social security act for grants to the states for aid to dependent children. Federal aid for mothers' assistance—which exists in all the states but two or three, at least on paper—has received universal approbation. For some mysterious reason, while Uncle Sam was offering to match a dollar for each state dollar for the benefit of the old folks, he grew parsimonious when it came to the children, and reduced his grant to fifty cents on the dollar.

So far so good. But will the resulting situation be one of security against the vicissitudes of widowhood and

orphanage? Some 150,000 widows and perhaps half a million children will benefit by the combined system of state and federal grants. How will that compare with the needs of some five million widows or even the two million widows under fifty, the majority of whom have minor children? How does it compare with the two hundred thousand widows receiving pensions in Great Britain, with a population of one-third of that in the United States, or half a million pension widows in Germany—at least before the advent of Hitler—with a population one-half of the United States? At best, mothers' allowances are a glorified and somewhat camouflaged system of public relief, based upon a rigid system of means test and dependent upon annual appropriations. Must we think of the new concept of social security in terms of the old familiar indignities of public relief?

UNEMPLOYMENT COMPENSATION

Let us now consider that section of the act which stands out as the most revolutionary—unemployment compensation. At least until the close of 1935 the impression was almost universal that the social security act had actually established a system of national unemployment compensation. To begin with, the social security act does not establish a national unemployment compensation system. For some reason it did not dare. There was the question of constitutionality of the federal government going into the social insurance business. In the case of old-age insurance the act answered the question in the affirmative —not so in the case of unemployment compensation.

Thus we have found in the law three different methods of approach. One is *straight federal insurance* for old-age annuities. Then there is the method of a *bait or inducement* through federal subsidy, as in the case of old-age and mothers' assistance. In unemployment compensation there is a novel approach, a *threat* rather than a bait, the compulsion method of a tax which is to be not "baited" but "rebated" to the states if they establish satisfactory state unemployment compensation systems of their own. Though nine states and the District of Columbia have already enacted laws, it may take years before the country will have forty-eight unemployment compensation acts. In the meantime, according to the federal act, these state unemployment compensation acts, to be approved by the Social Security Board, must provide that after the state legislature has enacted the law, and after the law has gone into effect, contributions must be collected for two years before the first benefits may be paid. (Sec. 903) Actuarially there is no justification for this extensive delay.

And yet this is not the most important difficulty, nor even the fact that millions of wage workers have been left out in the cold. The difficulty is that the system, even when it is in full operation, will only offer protection against a very small part of unemployment. The standard three per cent payroll levy required by the act will provide only for some fifteen weeks of benefit.

Of course the three per cent levy on the employer's payroll could be considerably added to by contributions from employees and the public treasuries. The first possibility is still left to the states, and six states have done so. As to contributions from the public treasury by means of an increased income tax, for some reason, after paying billions for unemployment relief, Washington decided upon a complete somersault and the necessity of relieving the public treasury entirely of any participation in the cost of public unemploy-

ment compensation, contrary to the experience of most European countries.

Another very fundamental objection raised against the unemployment insurance plan is the failure to establish definitely an insurance or "common pool" system, as against that curious contribution of American thinking to the theory of unemployment compensation, the so-called Wisconsin individual plant reserve plan. A detailed analysis of this problem within the narrow limits of this sketch is quite impossible. A general familiarity with the heated discussion of the last two or three years as to the respective merits of the Ohio and Wisconsin plans must therefore be assumed. The general preponderance of both technical and popular opinions in favor of state pools against individual reserves during the last three years—in fact, since the publication of the report of the Ohio Unemployment Insurance Commission—has been quite obvious. It was very unfortunate that the provision in the bill as passed by the house, requiring states to set up a single pooled fund, was later stricken, thus permitting either type of law to qualify under the act.

Yet it is not my intention to minimize the importance of the act. I do agree with the President's observation that, "It is the most important act of the 74th Congress, one which by itself would justify its existence."

CONCLUSIONS

Of course, if one has taken literally the promises of a complete system of economic security, then the comparison of promise with performance must lead to deep disappointment. But after all, is that the creative democratic attitude which a free people should take towards a legislative machinery? One might well ask what we had done to deserve a complete, comprehensive, and unified system of social insurance? What have we done during the last twenty years to make the masses understand or want it? Is it necessary to assume that all the light and wisdom and guidance and progress must come out of Washington? Just because at present national leadership is progressive, may one assume that this will always remain so? Surely it has not been that always in the past.

In the past, New York and Massachusetts and California and Wisconsin and sometimes Ohio showed the way to the rest of the country in the matters of social legislation. They were often ahead of federal legislation. Are we so sure that a privilege of initiative and leadership need be so easily abandoned to the federal Congress in which Kentucky or Alabama or Georgia may count as much as the progressive east or northwest?

If we but remember some of these fundamental principles of our political reality, we can then appraise the true significance of the social security act not in terms of fulfillment of a promise which perhaps should never have been made, but as a beginning of a program, the realization of which must be the function of the self-governing processes of a democratic people. Social insurance, if not a Utopia, is an ideal. That this ideal has been announced and is being accepted by an increasing proportion of our people is, in itself, a great achievement. What is important is that the ideal of a moderate prosperity plus security for all of us promises to replace the cannibalistic system of a constant competitive struggle. In this struggle for a more peaceful social structure, must one put all one's hope in the source of federal authority? If one may be permitted to use the militaristic term so popular today, "Washington is not the only front on which an attack of

human rights can be made." There are forty-eight additional states—Albany, Columbus, Harrisburg, and other state capitals. The attack in Washington was not altogether a failure. Some important positions were captured but it is apparently in those state capitals that from now on better unemployment compensation acts, more generous provisions for our aged, and fairer distribution of the financial burden, the entire territory of health insurance and organization of medical aid, that all of these, at least gradually, may be achieved.

ECONOMIC IMPLICATIONS OF SECURITY PROGRAM

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though this sum would have been insufficient to provide unemployment benefits throughout the depression, it would have served as a substantial cushion against the immediate impact of the industrial collapse.

Grave problems are involved, however, in the investment and liquidation of such a large sum. If used for the purchase of outstanding government bonds during a period of prosperity, this money would inevitably find its way into the capital markets and thus, perhaps, accelerate the rise in security prices and the flotation of new securities, at a time when business activity was developing into a dangerous boom. Later, when these securities were sold in order to provide funds to pay benefits, their liquidation might serve to accentuate the collapse. Hence the financial operations of the insurance fund might have the effect of aggravating the disease it is designed to cure. The accumulation and liquidation of the unemployment reserve, however, might be handled in such a way as to dampen the exuberance of the boom and mitigate the effects of the depression, although such a procedure would probably involve "sterilization" of excess funds and a loss of interest payments on the "investment."

This problem, perhaps, may never arise, since benefits may be paid so generously that a substantial reserve fund will never be accumulated. In that event a problem of a different nature would arise since the insurance system would face a prolonged depression without adequate reserves. In any event it is clear that unemployment insurance along traditional lines cannot, and should not be expected to, furnish a complete answer to the problem of unemployment. A soundly conceived and well administered system of unemployment compensation can meet the hazards of transitional unemployment during normal times, but in periods of prolonged and severe depression many, if not most, workers will exhaust their right to benefits before they find other jobs. There will still be need for organized relief to care for those workers who are no longer eligible for benefits as well as for those who are engaged in occupations not covered by the compensation system.

Administrative Problems of Social Security

The social security program starts a series of great enterprises simultaneously, and so presents to federal and state administrators tasks that challenge their creative competence and their ability to work effectively together

CHARLES McKINLEY *Reed College*

Social security administration, as legislation has thus far developed in the United States, encompasses three major activities and a larger number of minor tasks. Those major duties are the two complementary enterprises of creating a system of contributory annuities to guarantee a modest retirement annuity to working people when they reach age sixty-five and of improving the present financial provisions for our aged folk who are either now on relief or are in imminent danger of slipping down to that status. The other large social security enterprise is the development of a system of unemployment compensation which will speedily cover each of the forty-eight states together with the District of Columbia and the territory of Hawaii. These are gargantuan enterprises when measured in terms of the number of people directly affected and the volume of funds anticipated to finance them. Registrants for the old-age annuities (called benefits in the social security act) and unemployment compensation alone are expected at an early date to number between twenty and thirty millions, and to rise ultimately to possibly fifty millions, as the gaps in the present coverage of unemployment compensation are filled and as both the proportion and the absolute numbers of the aged in our population increase. These two enterprises will require, eventually, contributions of approximately three billion dollars a year. Aid given the needy aged will soon absorb another billion dollars.

When to these chief functions of the present social security program are added the many minor activities (grants-in-aid for the blind, for dependent and crippled children, for maternity and infant care, for an expanded public health service, and for more ample social services for children) the expenditures may overtop the total of the normal annual appropriations of the federal government heretofore. While health insurance is thus far absent from our legislative program, there is a prospect that a plan for reducing the hazards consequent upon sickness may in a few years be added.

We start this great series of enterprises with certain definite handicaps. Our people as a whole, and most of our public officials, have little or no knowledge about old-age or unemployment insurance. We have almost no native experience to teach us and European experience seems very remote. We have been inclined to ignore it as irrelevant to America. As a consequence, the broad popular understanding which is needed to facilitate and support good administration of "social security" is lacking. An active and informed public opinion must be created—and that rapidly—as a prerequisite to real administrative success. It is a good au-

gury that the federal Social Security Board seems already to have a full appreciation of the importance of this task.

MANY ENTERPRISES AT THE SAME TIME

We are undertaking to start a whole series of social security enterprises at the same time, an enterprise unique in modern administrative experience. In England, for example, the way for a complete program was prepared gradually. A nation-wide system of unemployment exchanges was developed some years before unemployment compensation was undertaken. One by one the different phases of the British program of social security were developed, permitting the needed administrative preparation. But in America such gradualism has not occurred. Suddenly American public sentiment appears to have ripened into a desire for a full-fledged social security program. When such moods of public opinion occur, a whole series of enterprises has to be planned and worked into an administrative structure, despite the hypothetical desirability from an administrative standpoint of a slower, piecemeal program. Social forces do not always move in nice, logical patterns. The opportunity has to be seized when it occurs. As a consequence, the administrative organization is compelled to play the part of the prestidigitator who must keep a half dozen balls tossing into the air at the same time. The administrative structure and the procedures which are needed must spring full grown from the brows of the men in charge of the six national operating agencies and the dozens of state and local departments.

CULTURAL LAG IN PERSONNEL PRACTICES

Fortunately all of the federal agencies entrusted with administrative tasks connected with the social security program (including the new Social Security Board) are covered by the merit system, but the personnel traditions and practices of state and county governments which will participate in the administration of a number of important phases of the new legislation are not so promising. The lag in our political culture is greatest in these local jurisdictions. All but a handful of the states are unprotected by law and habit from the spoils tradition. The counties are even worse off than the states. These facts have been brought home with peculiar force to all those who have observed the administration of relief funds during the present depression.

One of the dangers to the administration of unemployment compensation, particularly, is the likelihood that state administrators will fail to distinguish between the nature of relief functions and insurance functions. In the case of the former, it has been very easy to make arbitrary changes in policies governing the distribution of relief funds. For in that situation, the applicant for relief possessed few vested legal rights. This will not be true in the case of unemployment compensation. The workman who applies for benefits has definite legal claims against the insurance fund. Lax or capricious administration, therefore, will be countered by appeals to the courts for the judicial enforcement of vested rights. It follows that one consequence of lackadaisical or partisan management will be a multitude of suits which may seriously clog the administrative process. The development in the states of a whole new series of administrative tribunals and new kinds of administrative law will be indispensable accompaniments of the successful functioning of social insurance, constituting an additional challenge to the states to modify their political practices concerning administrative personnel.

FEDERALISM IN ADMINISTRATION

Assuming that the division of tasks between nation and states provided for in the social security act is constitutional, we turn to an examination of the possibilities for creating administrative devices and practices that may yield an effective and harmonious administrative process.

There are three different aspects to this problem. First is the task of working out the proper balance of activity as between the national and state agencies. This applies to all of the functions except the old-age annuities (benefits), and involves the Children's Bureau, the Public Health Service, and the Federal Employment Service, as well as the Social Security Board. The initiative in this creative experiment must come from the federal agencies, and that at a time when the rising tide of resentment in the states against federal dictation will require extreme delicacy in the methods of approach used by the federal administrators.

At the outset of its administration of grants-in-aid, the Social Security Board was faced with two general choices. First, it might lay down certain minimum requirements for state administration, such as unity of organization for all three grants and standards of reporting both fiscal and non-fiscal data. Second, it might leave most of the principles for effective administration unexpressed and consider each state plan by itself as it was presented. This second choice would not mean that the board was without its major premises concerning proper state administration, but that these would be, at least for public purposes, inarticulate.

As a matter of fact, the board has in a sense chosen a course midway between these two choices, insisting upon certain financial reports and statistical data from the states while leaving the matter of administrative structure without explicit definition and subject to the powers of persuasion and gradual education rather than command.

There is a fundamental inconsistency between the limitations imposed by the social security act upon the board in its relation to state personnel and the generous grant of authority to the United States Employment Service made by the Wagner-Peyser act. The employment service has broad powers over the personnel standards of the coöperating state employment services. This inconsistency is much more than a matter of academic interest, since the task of the Social Security Board in supervising state administration of unemployment compensation and perhaps also its function as a great insurance organization for old-age benefits, will require a close articulation of its work with that of the United States Employment Service. The same quarters, and to some extent the same staff, may very well be used for both. A Siamese-twin relationship exists between the two services, yet one twin has large control over the qualifications for state administrative personnel, while the other has none. There is likewise certain inconsistency in the implicit assumptions of the act which gives the federal board the right to make the states enforce county and town personnel standards, but denies the board a corresponding control over the state personnel which is to supervise these local staffs.

These are relationships affecting proper administration which can and should be better defined by future Congressional action. In the meantime, the habits of coöperation now started between the Social Security Board, the Children's Bureau and the United States Employment Service and the states may achieve a workable "federalized" structure.

The second phase of the federalizing process relates to the dovetailing of local administration into the overlying state and federal administrative structure. Problems very much like those on the state level are presented in connection with the local administration. Shall the county be made the unit or will it be permissible for the local functions to be distributed in those states where the town or township form of local government is strong, between the county and the subordinate local units? In many parts of the United States there is intense reluctance on the part of county and town officials to give up any of their independent prerogatives. Thus, there is ahead the task of working out a federal structure upon two levels. So far, the Social Security Board has insisted that in connection with the administrative plans for public assistance grants, the states must provide for supervision of local administration which includes certain minimum activities; namely, an adequate state audit of local accounts, proper financial reports to the state agency, field supervision by the state over the local organization, and the fixing of standards by the state for the local administrative staff.

REGIONALISM

A third challenge to the administrators of the Board arises in connection with the problem of distributing power within the Board's own organization as between the national headquarters and the regional, district, and local agencies. It is quite obvious that Washington cannot do all the work of handling the old-age annuity for twenty-five million clients. One of the tasks which the board has already begun is the locating of regional, district, and branch offices for this work. To do this well, decisions should be made concerning which functions are to be entrusted to the regional, district, and branch establishments, and which are to be reserved to the Washington headquarters. It is clear that somewhat different problems of central and local activity are involved in each of the three main tasks of the board, that is, old-age benefits, grants-in-aid, and the supervision of unemployment compensation. In administering the first function, the question of numbers to be handled is a matter of prime importance. Studies of population, and the ratio of probable annuitants to the total population represent the elementary steps in deciding about the location and size of regional and local districts for that purpose. Convenience of transportation is probably the other most important consideration. With grants-in-aid, however, other principles must be observed, among which are the integrity of state boundaries and the coincidence of district offices with state administrative locations. Unemployment compensation requires a still further principle for delimiting the regional areas, namely, that of homogeneity of industrial activity and similarity of employment problems. Then there is the problem of trying to articulate the subnational offices and boundaries with those of other national administrative agencies, particularly the United States Employment Service.

This task of locating regional areas ought to be linked up with the work of the National Resources Committee which has recently adopted a report based upon a special study of regional factors in national planning and development, prepared by a committee of which Professor John Gaus is chairman. The conclusions of that committee will need to be kept in mind by the Social Security Board in making its designation of regional centers. Doubtless it is impossible to be certain in advance of actual experience as to how far the

regional staffs should be given autonomous administrative functions. It is unfortunate that the most relevant experience of other federal agencies in trying to meet similar problems of central versus regional control has not been adequately revealed, so that the board might be able to shorten the trial and error process through which it will have to go.

TAX COLLECTION—RECORD PROBLEMS

We come, finally, to some of the administrative problems of that most unpleasant aspect of the social security program—tax collections. Payroll taxes are the chief sources of funds. For the federal government, this is an entirely new kind of tax to collect. The federal and state tax collectors should plan their tax collection programs so as to assure completeness of return, difficulty of evasion, promptness of audit, and a minimum of irritation. This means that the employers' return to both federal and state governments (in the case of unemployment compensation taxes) should be planned on some common pattern so that both may be readily made from the same payroll records. The two returns to the federal government (one for annuity taxes and the other for unemployment compensation) should be similarly designed. Irritation of explosive proportions which might wreck the experiment in social security before it gets under way is possible unless the pattern of tax reports is carefully articulated with employer payroll and bookkeeping practices and harmonized between the different governmental agencies.

But the problem of "paper work" does not end there. To forestall the ever present temptation to cheat and evade in paying these taxes some plan of reducing the need to rely on checking or inspection of books is urgently required. Obviously if the employer has to give the employee on whose behalf the taxes are paid a copy of his return to the government agencies, that would be rather ample guarantee of honesty of return. But how shall that be done? If, as seems to be the concensus of informed administrative opinion, the stamp-book method of collection is unsuited to the American situation, can some other simple device be discovered which will not unduly increase the employer's burden?

These are questions calling for full and exact knowledge of our business practices. They and the other difficulties we have outlined are challenges to our administrative inventiveness, and to the capacity of our federal and state officials to work together. Perhaps the pain of our recent experiences may furnish sufficient incentive to speed up the evolution of adequate administrative institutions and procedures. That, at any rate, is what must be striven for.

NOTE: For detailed discussions of the administrative problems that will be present in handling the public assistance grants, managing the employment offices, and in handling unemployment compensation, see the following articles in this same volume.

Civic leaders interested in citizen organization for better local government will welcome a new printing of "Detroit Rules Itself" by William P. Lovett, for many years executive secretary of the Detroit Citizens League. How Detroit citizens organized in support of good city government and how they have succeeded in maintaining it is narrated in clear and interesting detail. Apply to Mr. Lovett, 1022 Dime Bank Building, Detroit. 232 pp. $1.60. *Adv.*

Federal-State Cooperation Under the Social Security Act

Provision for grants-in-aid in the social field, to be spent by states under federal supervision, will pave the way for greater coöperation between states and nation

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THE federal social security act is based for the most part[1] on a plan of federal-state coöperation, through the use of the time honored device of federal grants-in-aid for the promotion of state work in certain fields, and through the use of the somewhat less familiar arrangement of a federal tax against which, under certain circumstances, payments made to states may be credited. Only the provisions for unemployment compensation are dependent upon this latter arrangement, but the grant-in-aid is the heart of much of the act.

Eight separate grants are provided in aid of state programs of social legislation, as well as extension and additional appropriation for vocational rehabilitation under the existing federal act. The various grants-in-aid for state work are: (1) for assistance to dependent children (title IV), (2) for maternal and child welfare (title V), (3) for services for crippled and physically handicapped children (title V), (4) for child welfare in rural areas (title V), (5) for public health services (title VI), (6) for assistance to the blind (title X), (7) for assistance to the aged (title I), and (8) for unemployment compensation administration (title III). The act authorizes federal appropriation in varying amounts for each of these services, but the failure of passage of appropriations by Congress in August of 1935 meant postponement of allocation of funds until the new Congress acts.

These applications of grants-in-aid in the social field are but new developments of a well known practice. Gradually the superior taxing power of the federal government has become apparent and coincidentally the increasing need of the states has appeared for aid in the development of their own services along a wide front. So grant-in-aid practice and theory have evolved in numerous widely differing fields, such as agricultural education, vocational rehabilitation, highway building, and the establishment of public employment offices. From them the significance of federal aid, with some federal standards and supervision, has become apparent.

The early grants in the mid-nineteenth century were gifts from a benificent federal government with no qualifications imposed for the expenditure of federal funds within the states. Thus the grants of public lands to states for educational use were freely given, for the need had not yet appeared for either federal technical assistance to strengthen state and local services, or for a degree of federal supervision in the spending of funds given to the states. Gradually the federal

[1]Only the provisions for old-age annuities are founded on a straight federal rather than a federal-state plan.

government has come to attach more and more strings to its gifts, though it still in numerous instances gives outright grants of fixed amounts to each state, regardless of size or other considerations. Several such outright grants are found in the social security act, as in the allotment (in part) for maternal and child welfare services and in the aid to crippled children (in part also).

A common requirement of grant-in-aid acts over a long period of time has been that of matching the federal aid. The social security act utilizes this principle, except for administration of unemployment compensation, in which it is expected that the federal grants will cover the entire cost. The other grants-in-aid generally require state and local expenditures equal to the federal aid. In the case of assistance to dependent children, the federal aid is limited to one-third instead of one-half the amount spent by the states, with further individual limitations.

REQUIREMENTS FOR GRANTS-IN-AID

Federal grants to states are usually allocated according to a specified formula involving such items as population, road mileage, fixed amounts to each state regardless of population and last of all "need." The social security act adopts several new and different formulae for allocation of grants-in-aid to the states. Thus, in addition to an outright gift, the act gives money to states for maternal and child welfare services partly in proportion to live births and partly on the basis of need, taking into consideration the number of live births in each state accepting the terms of the grant. A uniform grant is given to each participating state for the care of crippled children and, in addition, funds are given on the basis of need, taking into account the number of crippled children in need of such services and the costs of furnishing medical care to such children. The child welfare grants are made on a similar basis, under which funds are partly allocated in the proportion which the rural population of a state bears to the total rural population of the United States. The provisions for grants for public health set up treble requirements, for the surgeon general is to allocate funds to the states on the basis of population, special health problems, and financial needs.

In some respects, the grants-in-aid in the social security act are fundamentally different from any previous grant-in-aid and as such are worthy of particular emphasis. Thus in the provisions for the aged, the blind, and dependent children, no specific sum is allotted between the states. Instead, the federal government will pay a fixed proportion of the local cost, and provide whatever sums of money are necessary for this purpose. This is a very different policy from the former requirement of state matching which does not necessarily mean at all that the federal government will pay one-half the total cost, subject to limitations per individual. This policy is in essence the antithesis of an equalizing grant.

An unmatched grant, however, does not necessarily mean a grant in which the federal government has no lever of control, for states may be required to conform to certain administrative standards before they may be considered eligible to receive a federal grant-in-aid. These standards may be imposed by the federal statute itself or by a federal administrative authority. The imposition of standards either by the act itself or by administrative action is of the essence in any grant-in-aid statute, and on the wisdom of those standards will turn the success or failure of the administration of a grant-in-aid act. The statutory requirements made of states by a federal act may be definite, with comparatively little leeway

allowed the federal administrative authority, as in the national defence act. On the other hand, the federal act may lay down general statutory standards with a high degree of federal administrative control, as under the highway acts.

In the social security act, the statutory standards are made in general terms. Thus in the sections regarding old-age assistance, aid to the blind, dependent children, and maternal and child health, a state plan for each type of assistance must be submitted by the state to the designated federal administrative agency. In the cases of assistance to the aged and the blind and to dependent children, that agency is the newly created Public Assistance Bureau of the Social Security Board, while in the cases of maternal and child health services and care of crippled children, the agency is the federal Children's Bureau of the Department of Labor. Each of the plans in regard to aid to the blind and the aged and to dependent children must be state-wide, and if administered by political subdivisions of the state must be mandatory upon them. This requirement will probably necessitate considerable revamping of state laws in these fields, which at present are in many instances neither state-wide nor mandatory on local units of government.[2]

Still further statutory specifications are made. Each state accepting the grant for each of these groups must participate financially in each type of assistance or service.[3] A single state agency must be established or designated to administer the state plan, or at least to supervise its administration, and in the case of maternal and child health services, the state health agency must be used. In the cases of the first three of the groups mentioned above, persons whose claims for assistance have been denied must be permitted an opportunity for a fair hearing before a state agency. In regard to aid for the old and the blind, the state residence requirement may not exceed five years, within the last nine years, and only one year of residence immediately preceding an application may be required, nor may any discrimination be exercised against any United States citizen so that he is excluded from benefits. No state residence requirement in regard to dependent children may disqualify a child who was born in the state during the preceding year, if its mother lived in the state for the year preceding its birth. These maximum residence requirements will require amendment of the law, or even constitutions, of many states. The possibilities for conflict between federal and state requirements were realized in one federal statutory condition, for the act provides that until 1940, a seventy-year age limit is allowable in state old-age assistance laws, but after that date sixty-five is to be the maximum.

FEDERAL CONTROL

Two general conditions are of importance in their indications of the possibility of federal administrative control. State agencies are required to submit reports in each of the categories under discussion, when and in such form as may be required by the designated federal administrative agency. Last of all, such methods of state administration must be provided as are found by the Social Security Board to be necessary for the efficient operation of the state plan "other than those relating to selection, tenure of office, and

[2] *Cf.* LeBrun, H., Old-Age Pensions and Federal Standards, *Social Security,* Nov. 1935; Bloom, A., State Mothers' and Blind Pension Laws and Federal Standards, *Social Security,* Jan. 1936.

[3] Except that a state old-age assistance plan need not provide state financial participation before July 1, 1937, where the Social Security Board finds the state is prevented from so doing by its state constitution.

compensation of personnel."[4] The exceptions would seem effectively to prevent any extension of federal control or assistance by the development of administrative standards in regard to the all-important problem of personnel, and constitute a serious limitation on the possibility for the development of a non-political service in this extensive new branch of the American welfare program. Apparently the act in its present form must follow the developments under the old Sheppard-Towner act for the protection of the hygiene and welfare of maternity and infancy, where no requirements whatsoever were required by the federal act in regard to state personnel in state bureaus administering the act, whether those requirements concerned education, training, experience or other qualifications for the work. Apparently, too, no such development is possible as has occurred under the Wagner-Peyser act establishing a federal-state employment service.

That act, as originally introduced in Congress, provided for civil service examination for employees of the federal-state employment office system, but as finally adopted it provides for appointments to be made in the service "without regard to the civil service laws." Nevertheless, the section of the act which authorizes the United States Employment Service to increase the usefulness of the public employment offices throughout the country by "developing and prescribing minimum standards of efficiency" has been wisely used to require a merit system of appointment. In those states which have civil service systems, an examination program is administered by the state civil service agency in coöperation with the United States Employment Service and the federal Civil Service Commission. In states with no state civil service, the United States Employment Service in coöperation with that same commission has by administrative requirement provided for a merit system of appointment for employees. Although the Social Security Board and other federal agencies in charge of the administrative aspects of the social security act have established civil service requirements for their own personnel, they are effectively limited by the act in its present form from extending supervision over state personnel.

WHAT WILL CONSTITUTE SUPERVISION

Aside from the important and serious limitation indicated, it is too soon to know just what line federal administrative supervision will take. In comparison with other recent federal aid legislation, little authority is given to federal agencies to require minimum administrative standards of the states, save as to the provisions relating to public health and child welfare. These provisions make a broad grant to federal agencies, which in these fields may go so far as by administrative action to require state matching of federal funds. In the other sections of the grant-in-aid program, the conditions are general. The Social Security Board is required to approve any plan which fulfills the conditions laid down by the act itself. However, in view of the decision in the Hoosac Mills case which declared the AAA unconstitutional, a lack of rigid statutory standard may be a constitutional safeguard, for the opinion of the majority of the court, while distinguishing between conditions exacted under a grant-in-aid statute and conditions made by contracts under the AAA, nevertheless gives pause for thought as to the possibility of future limitations on other aspects of the spending power. Furthermore, the doctrine which forbids delegation of legis-

[4] Title I, Sec. 2 (a); Title IV, Sec. 402 (a), Sec. 503 (a), Sec. 513 (a); Title X, Sec. 1002 (a).

lative power, recently given new lease on life by the decisions of the Panama Oil and Schechter cases, might rise to forbid a high degree of federal supervision under rules and regulations established by a federal administrative agency.

Under the grant-in-aid system, the federal government may wield a "big stick" if it so desires by revocation of coöperation and of grants, as has occasionally been done under the highway acts, and again under the emergency relief administration. The social security act retains the possibility of such control, for it provides that if after notice and hearing the proper federal administrative organization finds that an approved state plan has been changed either by law or administration to include requirements prohibited by the act, the grant-in-aid to the state may be suspended.[5]

The other important coöperative federal-state arrangement of the social security act is found in the tax rebate device of the unemployment compensation provisions. Beginning January 1 of this year, a federal payroll tax of 1 per cent,[6] increasing to 3 per cent in 1938 and thereafter, has been imposed on employers who on each of some twenty days during the year employ eight or more workers, exclusive of domestic servants, agricultural workers, casual laborers, members of the crews of ships, federal and state government employees, workers over the age of sixty-five, and employees of charitable and educational institutions. Credit will be allowed these employers up to 90 per cent of the federal tax, for any contributions made to an approved state unemployment compensation plan. This coöperative arrangement is designed primarily to remove the disadvantages of states which have enacted unemployment compensation laws in comparison with states which have no such laws.

[5]The child welfare and public health provisions do not specifically allow for revocation.

[6]The tax is imposed for the calendar year ending December 31, 1936.

CONDITIONS FOR FEDERAL APPROVAL

In order that credit may be allowed under the act, approval of state laws must be given by the Social Security Board. Although great latitude is allowed to the states in the selection of the type of unemployment compensation plan which it adopts, nevertheless, certain general conditions are required to be met before approval may be given. These conditions are:

1. All compensation is to be paid through public employment offices in the state or through such other agencies as the board may approve.
2. No compensation is to be payable until after two years of contributions.
3. State unemployment funds are to be deposited with the Unemployment Trust Fund established by the act in the United States Treasury.
4. Money withdrawn from that fund is to be used solely for unemployment compensation, exclusive of administrative expenses.[7]
5. Compensation is not to be denied to any eligible individual for refusal to accept work if (a) the position is vacant due directly to a strike, lockout, or labor dispute, (b) the wages, hours or conditions of work are substantially less favorable to the individual than those prevailing in the locality, or (c) if the individual would be required to join a company union or to resign from or refrain from joining a *bona fide* labor organization.
6. The state must retain the right to repeal or amend its law.

[7]It must be borne in mind that the act provides a federal grant-in-aid to be given from time to time as the Social Security Board determines necessary for the proper administration of a state law, taking into account (1) population of the state, (2) number of persons covered by the state law and cost of proper administration, (3) such other factors as the board finds relevant.

So there is a certain degree of federal control and supervision, though for the most part in this new field the states are allowed entire freedom to experiment and do as they wish in regard to such important matters as adoption of a state pooled fund or individual plan "reserves," employee contributions, and the amount and method of payment of benefit.

CONSTITUTIONALITY QUESTION

It is too soon to predict the administrative efficacy or even the constitutional status of this type of arrangement in regard to unemployment compensation. Suffice to say that it has been upheld by the courts in so far as it has been used to apply to inheritance tax laws. To those who fear that the unemployment compensation provisions of the social security act are in essence a measure of control masquerading as a tax and that they may be declared unconstitutional under the doctrine of the child labor tax and grain exchange tax cases, answer may be made that here there is a tax in a very real sense and that funds will be collected under it. These funds go to the general revenue of the federal government, and there is no establishment of any federal unemployment compensation even in those states which do not set up their own system. Furthermore, the conditions imposed on states would in no sense appear to set so high a standard of federal requirement as to render the measure first and foremost one of regulation.

It is to be noted that the constitution or laws of various states may forbid state coöperation under the federal act, just as they have in some cases under its grant-in-aid provisions. These limitations are particularly important in regard to the requirement of deposit of funds from a state unemployment compensation law with the United States Treasury.[8] But the work of setting up state unemployment insurance laws is proceeding, and thus far ten states have enacted such acts.[9] Of these, the Social Security Board has approved six and is considering three others.

All this is a part of the task of dovetailing federal and state law in a vast coöperative field. With the social security act we have entered an era but the work of that era lies ahead. If federal-state coöperation in this program is wisely administered, with continuous adjustment of the delicate balance between federal stimulation and supervision on the one hand and on the other the preservation of local interest and initiative in such matters as public welfare and employment services—where such local interest must always be maintained—a finer balance between centralization and decentralization may be evolved.

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[8] *Cf.* Epstein, A. & Malisoff, H., Some Constitutional Obstacles to Unemployment Insurance, *Social Security,* Dec. 1935.

[9] Alabama, California, Massachusetts, New Hampshire, New York, Oregon, Utah, Washington, Wisconsin, and the District of Columbia. As of January 14, 1936, the board approved the laws of Alabama, California, New Hampshire, Oregon, and Wisconsin and the District of Columbia and was considering the laws of Massachusetts, New York, and Washington, while the Utah law had not yet been submitted.

The Essentials of Unemployment Compensation

Compensation for involuntary unemployment, to be paid for a limited time, and only to the extent of a part of the wage loss, the basis of all unemployment insurance laws

EDWIN E. WITTE

University of Wisconsin; Executive Director, President's Committee on Economic Security, 1934-35

UNEMPLOYMENT compensation is a modern social institution for partial and limited compensation to workmen who are involuntarily unemployed. Many variations occur in existing unemployment compensation laws, but all of them compensate only involuntary unemployment and only to the extent of a part of the wage loss and for a definitely limited period. At this time there is pending in Congress a bill known as the workers' social insurance bill (Frazier-Lundeen), which violates all three of these concepts, providing for compensation at average wage rates for an unlimited time and for all unemployment, whether voluntary or involuntary. Assuming that it can be financed without wholesale inflation, this measure might be described as the most generous proposal for the relief of the unemployed ever advanced, but it is essentially a relief, not a compensation, proposal.

The concept that only involuntary unemployment is to be compensated has been expressed in many laws in the provision that, to be entitled to compensation, the unemployed worker must be "willing and able to work." After long experience with this condition, Great Britain has abandoned this precise standard, but retains the requirement that the applicant must register at a public employment office and must accept any suitable employment. The same requirement is a feature of every compensation law now in effect or that has ever been enacted.

In some laws, persons who voluntarily quit employment or who were discharged for misconduct are permanently barred from receiving any compensation for resulting unemployment, but more generally they are penalized only by a longer waiting period. In all cases, regardless of how the unemployment may have come about, the worker loses his right to benefits if he refuses to accept other work, provided that it is "suitable." What is suitable work depends upon many factors, but can be described briefly as work which the applicant can do, which imposes no extreme hardships upon him, and which offers standard wages and conditions. It is not necessary that the unemployed worker be offered work in his old occupation or work which pays as well as that which he was doing, but only that he will be paid the going wage for the new work.

Everywhere, also, the compensation to an unemployed worker is limited to a part of the wages which he earned while employed, being designed to encourage an active quest for other work. In all American and in most foreign laws, the rate of compensation is a specified percentage of the prior earn-

ings. In Great Britain, there is a flat weekly rate, regardless of the worker's earnings, but varying with the number of his dependents. This flat weekly compensation amounts to about 30 per cent of the prevailing average wages for a single worker and 40 per cent for a married worker. In none of the American laws enacted to date is there any additional allowance for dependents. In the great majority of these acts, compensation is provided for at the rate of 50 per cent of the prior earnings, with specified maximum and minimum limitations. The most usual maximum is fifteen dollars per week and the most frequent minimum five dollars, for complete unemployment. Partial unemployment is compensated only when the wages actually earned are not more than one dollar or two dollars above the amount which could be received as a benefit for full time unemployment.

REQUIREMENTS FOR PAYMENTS

In all unemployment compensation laws, there is a waiting period following discharge or lay-off, during which no compensation is payable. In European laws, this waiting period is generally a week or less; in this country, most commonly three weeks in any year—by which is meant that once an employee has been unemployed for three weeks (for which he is not compensated) he can draw benefits from the first day should he again become unemployed during such year.

In all unemployment compensation laws, the period during which benefits can be drawn is related in some manner to the time the employee worked before becoming unemployed. This may be a requirement either of a specified number of contributions (where the employees contribute to the reserve funds) during the year or two years preceding application for benefit, or of employment for a specified number of weeks by employers subject to the act, or (where the law established individual employer accounts) by the employer from whom compensation is claimed. In the latter case, the qualifying period is always much shorter than under laws which take account of all employment, whether for the particular employer by whom last employed or not.

An unemployed workman who has established his eligibility to benefits, and who has completed his waiting period, thereafter receives compensation weekly at the rate specified in the applicable law. Such benefits terminate when he gets another job or refuses suitable employment, and, in any event, end after a specified number of weeks definitely stated in the law. In England, the present maximum duration of benefits is twenty-six weeks, with an allowance of additional weeks to workmen who have not drawn any benefits during the preceding five years, up to a maximum of fifty-two weeks in all. From 1924 to 1934, there were extended benefits beyond the standard benefit period to workmen who had been unable to get other work within this period. These provisions for extended benefits constituted the much criticized British "dole" and, in effect, involved a commingling of relief and unemployment compensation. They operated to put the unemployment insurance fund heavily into debt to the exchequer and all but wrecked the system. In 1931 the extended benefits were made conditional upon a showing of need—the "means test"; but not until 1934 was unemployment compensation completely divorced from relief (now called public assistance). In Germany, relief and compensation are still commingled, much as they were in England, but with the difference that the treasury has not come to the rescue of the unemployment insurance fund and that, in con-

sequence, the maximum standard benefit period, without a means test, is now limited to but six weeks.

As conceived in this country, and also as originally and now again provided in England, the right to unemployment compensation is contractual, and does not depend upon the needs of the unemployed workmen. Relief, representing a gratuitous payment from general revenues, on the other hand, must necessarily be limited to people who are in need. For this reason, as well as to prevent the insolvency of the compensation funds, with resulting uncertainty whether unemployed workmen will get an adequate assistance, it is now generally agreed, at least in this country, that relief and unemployment compensation should be kept entirely distinct.

This can be done only if the duration as well as the rate of benefits is limited, as warranted by the expected contributions. Two types of limitations of the duration of benefits are included in our American laws. One of these is a ratio of weeks of benefits to weeks of employment; the other, an absolute maximum number of weeks for which benefits may be drawn during any year. The most common ratios of benefits to employment are one to three or one to four, that is, the maximum number of weeks for which benefits may be drawn may not exceed one-third or one-fourth of the number of weeks of employment within the year or two years preceding unemployment. The most common absolute limitation is sixteen weeks of benefits during any year, with one law establishing a maximum of twenty weeks and another of thirteen weeks. In about half of the new American laws, there are also provisions similar to those in the present British act for additional weeks of benefits beyond those specified to employees who have been employed for a long period without having made any drain upon the reserve funds.

VALUE OF COMPENSATION

From all that has been said, it is apparent that unemployment compensation is by no means a complete protection against the hazard of unemployment. A large part of all unemployment is not compensable in every unemployment compensation system. Estimates of the statistical staff of the Committee on Economic Security, which were based upon numerous "spot" censuses of unemployment, were to the effect that nearly one half of all unemployment would not be compensated under laws establishing a three weeks' waiting period and a maximum of sixteen weeks of compensation in any year. These estimates seem very conservative in the light of the British experience, that even during the depression 55 per cent of all unemployed workmen have found other employment within three months and 75 per cent within six months.

But whatever may be the exact percentages of the compensated and uncompensated unemployment (and only actual experience will give us reliable figures) it is very evident that no unemployment compensation law can compensate all unemployment. The chronically unemployed will get little or no benefit from a compensation system. In a severe depression, many workmen will be unable to procure other employment within the maximum period for which benefits are payable. Even in periods of prosperity, workmen thrown out of employment by technological or market changes may exhaust their benefit rights before they can find other work. Unemployment compensation laws are likely, also, to prove disappointing to irregular and casual workers, as they will not usually be able to procure

sufficient employment to build up substantial benefit rights.

Unemployment compensation does not eliminate all necessity for relief or for an expansion of public work when private employment slackens. It does, however, have very real value as a first line of defense for many wage earners. It is particularly valuable for the largest group in our population, the wage earners who are normally, regularly, and fairly steadily employed. In periods of prosperity it can be made to cover nearly all unemployment except that existing among people of low employability and casual workers. In periods of extreme depression, it will meet only a much smaller part of the total problem, although in such periods the actual benefit payments will be much greater. To the extent that unemployment compensation is paid, the need for relief is postponed and lessened. Through payments of compensation to unemployed workmen, their purchasing power is in some degree sustained and all business benefited. The extent of these benefits will depend upon the rate of contributions. No more can be paid out in benefits than is taken in as contributions, plus interest earnings on reserves.

FINANCING

Contributions to unemployment reserve funds can come from three sources: the employers, the employees, and the government. The world over, employers bear at least a part of the costs of unemployment compensation. Employees likewise almost invariably contribute under foreign laws. The government gives financial aid from general revenues in England, Canada, and some of the continental countries. In the United States, five of the existing state laws require employee contributions and five do not; none provide for any contributions by the state.

In the British law, all contributions are at a flat amount per week per employee, regardless of his wages. In nearly all other unemployment compensation laws, the contributions are a percentage of the wages paid employees. In this country there have been some objections to this method of financing on the score that the contributions are shifted to the consumers in the form of higher prices. It has been urged that unemployment compensation should be financed from income, not payroll, taxes. At first thought this contention may seem sound as being in accord with the principle of taxation according to ability to pay. Contributions to unemployment compensation funds, however, are not taxes any more than are payments for workmen's compensation insurance or for wages. Workmen's compensation insurance rates everywhere are based on payrolls and all wage payments in the long run are shifted to the consumers. This will probably also prove true of the contributions of employers for unemployment compensation purposes. But this is as it should be, representing merely honest accounting for all costs of production. Unemployment compensation is properly a cost of the production of goods and should be included in the selling price, just as is the cost of wages and of workmen's compensation. To finance the costs of unemployment compensation entirely from general revenues means placing the burdens upon groups in the population that have no responsibility for unemployment. Under existing conditions, moreover, any such attempt would almost certainly break down.

A much stronger case can be made for contributions from general revenues toward a part only of the costs of unemployment compensation. Beyond question, there are advantages in the British formula of equal contributions from employers, employees, and the state. With our present unbalanced

budgets, however, it is probably impossible to get either the federal or the state governments, at this time, to make any contributions to unemployment compensation funds beyond the administration costs. While government funds are still so badly needed for the support of people now unemployed and in need, it is too much to expect that the governments will make large contributions to reserve funds for the payment of compensation to the unemployed of future years, particularly when they have to borrow the money thus contributed.

Employee contributions have long been a source of controversy within the ranks of the advocates of unemployment compensation in this country. In support of employee contributions, it is argued that the employee will have a real voice in administration only if he pays part of the costs; also, that employee contributions are the best possible safeguard against unreasonable increases in benefits. The opponents of employee contributions deny both of these claims and assert that it is unjust to ask employees to contribute since they in any event must bear the major part of the cost of unemployment and, moreover, cannot shift their contributions to the consumers, as employers are presumed to be able to do. Where the balance lies between these contentions is a matter of individual opinion, but one fact is not subject to dispute. Where employees contribute, larger benefits can be paid than where they do not contribute. The rate of contributions which employers can be expected to pay is, as a practical matter, quite limited. At this time, states cannot impose a higher rate upon their employers than that provided for in the federal social security act, without placing their employers at a disadvantage in competition with those from other states. The maximum rate contemplated in the social security act is 3 per cent. This is nearly double the average contribution rate from employers in England and only slightly below the present German rate. At a 3 per cent contribution rate, only benefits such as are provided in our least liberal American laws can be financed. Higher benefits seem impossible at this time, unless employee contributions supplement those of the employers.

FEDERAL LEGISLATION

Some advocates of unemployment compensation have felt that this institution is not worth while unless administered by the federal government, and all concede that uniformity in unemployment compensation legislation has many advantages. Large employers who carry on business in many states and groups of employees whose work customarily or frequently is carried on across state boundaries are peculiarly interested in such uniformity of standards. The recent decisions of the supreme court in the NRA and AAA cases, however, have clearly established that we cannot have either a federal system of unemployment insurance or federal prescription of what the state unemployment compensation laws shall contain without amendment of the constitution. For the time being, the controversy over national versus state unemployment compensation and over numerous standards to be set forth in a federal act to which the state laws must comply has become purely academic.

This does not mean that the federal government cannot give assistance to the states in this matter. Long experience has demonstrated that the states cannot act unless the federal government will remove the advantage which employers in states without unemployment compensation laws enjoy over those in states with such laws. But

unemployment compensation must be administered by the states and they must have the determination of what sort of unemployment compensation shall be provided.

This is the underlying theory of the social security act. This act does not establish a federal system of unemployment compensation, nor does it prescribe what sort of systems the states shall have. It merely provides for the levy of a tax upon all employers of eight or more employees throughout the country (with some exceptions) against which a credit is allowed up to 90 per cent of the federal taxes, for contributions made by these employers to unemployment reserve funds established pursuant to state laws. The purpose of this tax is not merely to raise revenue, but to make it possible for the states to enact unemployment compensation laws and to induce them to do so. As a further inducement, the social security act, in another title, authorizes an appropriation to the states for the costs of administering unemployment compensation.

There are six conditions which the state laws must satisfy in order to be recognized for tax credit purposes. All but one of these conditions are mere definitions of unemployment compensation as distinguished from unemployment relief.

The one condition for approval which is not a necessary feature of any genuine unemployment compensation law is the requirement that all contributions collected under the state laws must be deposited in the unemployment trust fund of the United States treasury, to be held in trust for and subject to draft of the state unemployment compensation authorities, with control over the financial management of the fund vested in the secretary of the treasury. This condition was inserted to insure that the creation of unemployment reserve funds will operate to promote economic stability instead of the reverse. Unemployment reserve funds have the characteristic that they are mainly collected in periods of prosperity and spent in periods of depression. Given a run of boom years, such as prevailed in the twenties, the combined unemployment reserve funds established under state laws may total billions of dollars. If the investment and liquidation of these reserve funds is not centrally controlled, they may operate to increase the fluctuations of the business cycle. The social security act avoids this danger. It insures not only complete safety of the unemployment reserve funds, but their investment and liquidation in conformity with the credit policies of the government.

TYPES OF LAWS

With this one limitation, the states are for all practical purposes unrestrained with reference to the unemployment compensation laws they shall enact. The type of law to be enacted, the rate and conditions of contributions and benefits, the administrative system—in fact, nearly everything that is customarily included in unemployment compensation laws is left to the decision of the states. At the present time, nine states and the District of Columbia have unemployment compensation laws. Of these ten laws, nine (all that have been submitted) have been approved as fulfilling all conditions prescribed in the social security act, although they differ about as widely in their provisions as it is possible for genuine unemployment compensation laws to differ. Three major kinds of unemployment compensation laws have been enacted in this country, typified by the Wisconsin, New York, and New Hampshire laws. The Wisconsin law provides for individual employer accounts to which all contributions by a given employer are credited

and from which payments of benefits are made to his employees who become unemployed. The employer does not hold his own reserve funds and has no control over their investment or liquidation; neither does the employer have the determination of the benefits to be paid employees. In these respects the Wisconsin law does not differ from those of New York and New Hampshire. But it does differ in that each employer is responsible only for unemployment among his own employees. This, the supporters of this type of law believe, will stimulate employers to stabilize employment, as far as they are able. As a further stimulus to prevention, the Wisconsin law allows employers to reduce, and finally to stop altogether, their contributions for unemployment compensation purposes, when they have built up, and so long as they maintain, adequate reserves. Conversely, when the employer's benefit payments are such that there is danger that his account will become exhausted, his contribution rates are increased.

The New York law, instead of individual employer accounts, has a pooled fund to which are credited the contributions from all employers and from which benefits are paid to unemployed workmen regardless of the contributions made by their particular employers. Nor is there any variation in the contribution rates, although there is a provision that the Industrial Commission shall after three years make a report to the legislature on the feasibility of variations in rates adjusted to the risk and record of the employers. This indicates an intent to vary rates in accordance with risk, when sufficient information has been accumulated through experience to make this possible; for the time being, however, the contribution rate is uniform and it is not certain that variations will ever be introduced.

The New Hampshire law provides both for a pooled fund and individual employer accounts. Benefits as paid will be charged to the employer's account, but the employee's right to benefits does not depend upon the solvency of the employer's account. For the present, all contribution rates are alike, but after three years these rates are to be readjusted on the basis of the experience of each employer. Like Wisconsin, New Hampshire within a few years will have contribution rates varying with risk and experience, but unlike Wisconsin, unemployed workmen are assured benefits so long as the entire fund is not exhausted.

The respective advantages of these several types of unemployment compensation laws are at this time the subject of much controversy, as are many other matters in relation to unemployment compensation. If the federal and state laws are sustained, these differing opinions will soon be subjected to the test of actual experience. Approximately ten million dollars has already been collected in contributions under the Wisconsin law. Some benefits are now being paid and benefit payments generally will begin on July 1 of this year. Under the other state laws, contributions have been accruing since January 1, 1936, and in several of them, the actual collection of contributions has begun. Unemployment compensation in this country is still in an experimental stage, but actual experimentation is now really under way.

Federal-State Program of Unemployment Compensation

Summary of the federal social security act and the ten state laws which make it effective

WILBUR J. COHEN — *Social Security Board*

THE federal social security act does not provide for the establishment of a federally administered system of unemployment compensation. In the words of the sponsors of the legislation: "What it seeks to do is merely to make it possible for the states to establish unemployment compensation systems and to stimulate them to do so."[1]

Two titles in the social security act deal with unemployment compensation. Title IX imposes a tax on employers of eight or more employees, against which contributions to state unemployment compensation funds may be credited up to 90 per cent of the federal tax. Title III provides for making grants to the states for the administration of their unemployment compensation laws.

The tax offset device in title IX is modeled after the federal estate-tax law,[2] under which credit is allowed up to 80 per cent of the federal tax, for amounts paid under state inheritance tax laws. The federal tax levied in section 901 of the act is an excise tax on employers, and is 1 per cent for the year 1936, 2 per cent for 1937, 3 per cent for 1938 and thereafter.

This rate of tax is levied on the total wages payable by the employer during the calendar year, but section 902 permits an employer to credit against the amount of the federal tax so computed any contributions made under state unemployment compensation laws approved by the Social Security Board. Regardless of the amount paid into state funds, an employer cannot credit more than 90 per cent against his federal tax.

The tax in title IX is, therefore, not an "unemployment compensation tax." It is designed to be a uniform, national tax, so that with the credit-offset device employers in all states will be placed in an equal competitive position.[3]

There is thus neither a federal unemployment compensation tax nor a federal system of unemployment compensation benefits. The actual legislative provisions dealing with unemployment compensation contributions and benefits

[1]Senate Report No. 628, to accompany H.R. 7260, May 13, 1935, p. 12.

[2]Section 301, Revenue Act of 1926; 44 Stat. 9, 69-70. Upheld in *Florida* v. *Mellon*, 273 U. S. 12 (1926).

[3]On this point, the Ways and Means Committee report on the social security bill stated: "The failure of the states to enact unemployment insurance laws is due largely to the fact that to do so would handicap their industries in competition with the industries of other states. The states have been unwilling to place this extra financial burden upon their industries. A unform, nation-wide tax upon industry, thus removing this principal obstacle in the way of unemployment insurance, is necessary before the states can go ahead. Such a tax should make it possible for the states to enact this socially desirable legislation." House Report No. 615, to accompany H.R. 7260, April 5, 1935, p. 5.

is, therefore, a function of the states. But if the contributions which employers make to a state unemployment compensation fund are to be credited against the federal tax such state unemployment compensation laws must be approved by the Social Security Board.

APPROVAL OF STATE LAWS

The Social Security Board must approve any state law in order for an employer to obtain his credit-offset against the federal tax, if the state law conforms to the six provisions contained in section 903 (a), which are, in substance, as follows:

1. Compensation is to be paid through public employment offices;
2. No compensation is payable until at least two years after contributions are due;
3. All contributions are deposited in the unemployment trust fund in the United States Treasury;
4. All money withdrawn from the unemployment trust fund is used solely for the payment of compensation;
5. Employees cannot be denied compensation if they refuse new work under certain conditions relating to trade conditions, disputes and the right to belong to a labor union;
6. The law must be subject to amendment or repeal.

The provisions enumerated above are the only requirements necessary for a state law to be initially approved by the board to permit employers to obtain their credit allowances. The provisions specified were intended to be definition of what constitutes an unemployment compensation law and not to prescribe what kind of law the states should enact.[4] Each state is given wide latitude in determining the coverage, source, and amount of contributions, the amount and duration of benefits, type of fund, and other matters to be provided in the law.

[4]Senate Report 628, *op. cit.*, p. 12.

FEDERAL ADMINISTRATIVE GRANTS

Under title III $4,000,000 is authorized to be appropriated for allocation to the states in the fiscal year 1936 to assist and encourage the states in the efficient administration of their unemployment compensation laws; $49,000,000 is authorized for each fiscal year thereafter.

In order for each state to obtain such funds as determined by the Social Security Board "to be necessary for the proper administration of such law" the state law must not only be approved by the board under the conditions required by title IX, but must provide, in addition to the provisions necessary for it to obtain such approval:

1. Such methods of administration (other than those relating to personnel) as are necessary to insure the payment of compensation;
2. Opportunity for a fair hearing before an impartial tribunal for individuals whose claims for compensation are denied;
3. The making of reports to federal agencies.

STATE LAWS

Prior to January 1, 1936, nine states and the District of Columbia had enacted unemployment compensation laws. Wisconsin, in 1932, was the first state to enact such a law. Six other states—California, Massachusetts, New York, New Hampshire, Utah, and Washington—enacted legislation prior to the approval of the social security act. The Alabama, District of Columbia, and Oregon laws were enacted after the passage of the federal legislation. With the exception of the Wisconsin law, the other state laws were all enacted in 1935. By February 15, 1936, the Social Security Board had approved nine state laws under title IX, namely, Alabama, California, District of Columbia, Massachusetts, New Hampshire, New

York, Oregon, Washington and Wisconsin.

TYPES OF FUNDS

Two types of funds have been created in the legislation so far enacted: (1) the employer reserve accounts type of fund, and (2) the state pooled type of fund.

The employer reserve type was first adopted in Wisconsin and later in Utah and provides for individual employer accounts in the state fund, to which the particular employer's contributions are credited, and against which the benefits paid to his employees are charged. If a particular employer's reserve account is exhausted, and an employee is not eligible for benefits from any previous employer's account, the employee cannot receive any benefits. After a specified reserve has been reached, the employer is permitted to reduce his rate of contributions.

The pooled fund type of law provides for a pooling of all contributions in a single fund, from which benefits are paid to eligible employees, irrespective of their former employers. Of the eight[5] laws which have pooled funds, only one does not provide for some "merit rating" which would adjust the employer's rate of contribution upon his employment and benefits experience.

The federal social security act permits any of these types of fund, but requires, for tax credit purposes, in the case of pooled funds, that merit rating must be based upon three years of benefit experience, and in the case of employer reserve accounts, one year of benefit experience and certain minimum reserves, before an employer's contributions can be reduced.[6]

COVERAGE

The federal tax in title IX of the social security act is levied upon all employers of eight or more employees, who employ this number of individuals within each of twenty weeks in the year. The following classes of employment are excluded from the federal tax:

1. Agricultural labor;
2. Domestic service in a private home;
3. Crew of a vessel on navigable waters;
4. Individual in employ of son, daughter, or spouse; child under twenty-one in employ of parent;
5. Public employees—federal, state, and local;
6. Employees of certain non-profit institutions.

The coverage of the state unemployment compensation laws is a matter which the states are free to determine for themselves. Several state laws have a broader coverage than the federal tax. In respect to employment and size-of-firm exclusions, state laws vary in their scope of coverage. Four state laws provide for the coverage of employers who employ eight or more employees; another five states provide for employers of four or more; the District of Columbia law is the only law so far enacted which covers employers of one or more employees. Over five million employees are estimated to be covered under the ten laws in existence.

The state laws sometimes contain "wage exclusions" as well. The federal tax is levied upon the total amount of wages paid to all covered employees. The laws of Massachusetts, New Hampshire, New York, and Utah (and Wisconsin during the year 1936) exclude certain higher salaried individuals from the payment on their behalf of state contributions, and from receipt of benefits.

[5]The Oregon law appears to be a pooled fund with provision for separate employer accounts also. Sections 16 (c) and 2 (n) indicate that both types may exist under the Oregon law depending upon how the commission interprets these provisions in the law.

[6]Sections 909 and 910.

The tax levied in title IX of the social security act applies only to employers. The federal tax cannot be deducted from the wages of employees.[7] The state laws may raise their contributions from whatever sources they deem advisable, but only contributions made by an employer are creditable against the federal tax. The state may levy additional contributions upon employees, or may provide that the state itself contribute to the fund. The employer rates of contributions are shown in the accompanying table.

CONTRIBUTIONS

Five states require employee contributions.[8] These are Alabama, California, Massachusetts, New Hampshire, and Washington. With the exception of Massachusetts, the four other state laws require employee contributions beginning in 1936. Massachusetts requires employee contributions beginning in 1937. Employee rates of contribution for 1936 vary from forty-five hundredths of one per cent to one per cent.

The District of Columbia law is the only one which so far provides for contributions by the state.[9]

MERIT RATING

"Merit rating" is the process of basing an employer's rate of contribution upon his hazard. It has long been a technique used in determining rates in accident compensation.

Nine of the unemployment compensation laws provide for some form of merit rating. The employer reserve laws of Wisconsin and Utah provide such rating by the very nature of their type of legislation. California and New Hampshire make provision for rating in pooled funds based upon specified percentages of payroll provided in the law. Five other laws established this system in pooled funds, to be based upon the experience of employers.

The federal law encourages and makes provision for the inclusion of merit rating in state laws. In Sections 909 and 910 of the federal act are contained the "additional credit allowance" provisions, by which an employer may also obtain credit against the federal tax for contributions which he does *not* make to a state fund under given conditions. If a state law provides for the reduction of an employer's contribution rate, and such reduction is found by the Social Security Board to be made under certain conditions of a state law, provided for by Section 910 of the federal act, the amount of the reduction is credited the employer against the federal tax, as are the amounts he actually makes under an approved state law.

In some states the effect of merit rating on employers has a corresponding effect in the reduction of the employee's rate of contribution where such contributions are required. New Hampshire and California provide that the rate of contribution required from employees shall not exceed 50 per cent of the general rate required of employers. The Massachusetts law requires the employee to contribute 1 per cent beginning in 1937 but thereafter an amount equal to one-half of the amount contributed by his employer for him.

BENEFITS

Seven laws provide that the amount of the weekly benefit of the employee for total unemployment shall be 50 per

[7] Cf. Sec. 907 (f).

[8] Section 16 (d) of the Oregon law contains an employee contribution which was declared void by opinion of the Attorney-General because the legislative journals clearly showed that this section of the act was left in the engrossed bill by inadvertence.

[9] In several laws certain groups of public employees are covered, and the unit of government contributes as an employer.

SUMMARY OF STATE UNEMPLOYMENT COMPENSATION LAWS
JANUARY, 1936

State	Type of Fund	Contributions		Benefits Per Week		Qualification Period	Waiting Period	Maximum Duration of Ordinary Benefits	State Administrative Agency
		Employer	Employee	Maximum	Minimum				
Alabama	Pooled fund with merit rating	0.9%, 1936; 1.8%, 1937; 2.7%, 1938, 1939, and 1940; merit rating thereafter	1%	$15	None	40 weeks employment in 104 or 26 in 52	3 weeks in 52	16 weeks in 52 weeks	Unemployment Compensation Commission
California	Pooled fund with separate employer accounts for merit rating only	0.9%, 1936; 1.8%, 1937; 2.7%, 1938, 1939, and 1940; merit rating thereafter	0.45%, 1936; 0.9%, 1937; 1% thereafter; not to exceed 50% of general employer rate	$15	$7	State resident for year, or employed 26 weeks in state during that year	4 weeks in 12 mos. through 1938-39; thereafter 3 weeks in 12 months	For 52 weeks of contributions, 13 weeks of benefits in 12 months, for 104 contributions, 20 weeks in 12 months	Reserves Commission
District of Columbia	Pooled fund with merit rating	1%, 1936; 2%, 1937; 3%, 1938, 1939, and 1940; merit rating thereafter	None	$15	None	13 weeks employment in 52	3 weeks in 52	16 weeks in 52 weeks	Unemployment Compensation Board
Massachusetts	Pooled fund with merit rating	1%, 1936; 2%, 1937; 3%, 1938, 1939, 1940 — less Federal amount not credited. Merit rating thereafter	None, 1936; 1%, 1937; thereafter 50% of amount contributed by employer	$13	$5	90 days employment in 52 weeks or 130 days in 104 weeks	4 successive weeks in 12 months	16 weeks in 52 weeks	Unemployment Compensation Commission
New Hampshire	Pooled fund with separate employer accounts for merit rating only	1%, 1936; 2%, 1937; 3%, 1938, 1939, and 1940; merit rating thereafter	0.5%, 1936; 1% thereafter; not to exceed 50% of general employer rate	$15	If wage $10 week or less, 70% of wages, not to exceed $5	60 days employment in 52 weeks	3 weeks	16 weeks in 52 weeks	Commissioner of Labor
New York	Pooled fund	1%, 1936; 2%, 1937; 3% thereafter	None	$15	$5	90 days employment in 12 mos. or 130 in 24 months	3 weeks, but not more than 5 in calendar year	16 weeks in 52 weeks	Industrial Commissioner
Oregon	Pooled fund with separate employer accounts	0.9%, 1936; 1.8%, 1937; 2.7%, 1938, 1939, and 1940; merit rating thereafter	Employee contributions in law declared void by Attorney-General	$15	$7	40 weeks employment in 104 or 26 in 52	3 weeks	15 weeks in 52 weeks	Unemployment Compensation Commission
Utah	Employer reserve accounts	3% during an employer's first 2 years of contributions; based on reserve ratio thereafter	None	$18	$6	20 weeks employment in 52	2 weeks in 13	16 weeks in 52 weeks	Industrial Commission
Washington	Pooled fund with merit rating	3% in 1936 and 1937 but may be 1% or 2% according to federal reserve production index; 3% in 1938, 1939, and 1940; merit rating thereafter	1%	$15	None	40 weeks employment in 104 or 26 in 52	6 weeks in 52	15 weeks in 52 weeks	Unemployment Compensation Commission
Wisconsin	Employer reserve accounts	2% from July 1, 1934, through 1937; thereafter standard rate 2.7%; merit rating provided	None	$10 if wages less than $25; $12.50 if wages between $25 and $30; $15 if wages $30 or more	$5	4 weeks employment by given employer	3 weeks in 52	Between 8 2/3 and 20 weeks within 52 weeks as computed under the ratio provision	Industrial Commission

cent of wages, not to exceed a maximum of $15. In the District of Columbia benefits may range from 40 per cent to 65 per cent, according to the number of the employee's dependents. In Utah the maximum benefit is $18, while in Wisconsin it may be $10, $12.50, or $15 according to the wages of the employee. Minimum benefits are provided as shown in the accompanying table.

Seven state laws also provide for benefits for partial unemployment. Massachusetts, New York, and Utah make no such provision.

BEGINNING OF BENEFITS

Since section 903 (a) (2) of the social security act provides that no compensation is to be payable under an approved state law during the first two years of contributions, the nine laws enacted in 1935 requiring contributions beginning January 1, 1936, all provide for the payment of benefits after January 1, 1938. In Wisconsin contributions were begun on July 1, 1934, and consequently benefits will begin on July 1, 1936. The Wisconsin law provides, however, that benefits shall be computed only on the basis of *employment occurring after* July 1, 1936.

QUALIFICATION AND WAITING PERIODS

All of the ten laws contain qualification provisions which specify the period of previous employment necessary for eligibility to benefits. These qualification periods in the ten laws vary greatly.

Each of the laws also requires the applicant for benefits to undergo a waiting period before he may receive benefits. Three weeks is the most common provision, but one state provides a shorter period and one a longer one. The accompanying table shows the varying qualifications and waiting periods in the state laws.

RATIO OF BENEFITS

Every state law provides that the weeks of benefits to which an employee is entitled shall be in ratio to previous weeks of employment for which contributions have been made to the state fund, and which have not been previously used for benefits. Seven state laws provide one week of benefits for each four weeks' previous employment, within a definitely prescribed period of time such as 104 weeks. The District of Columbia law contains a one-to-three ratio, and the New York law provides for one week of benefit to fifteen days' previous employment within the fifty-two weeks prior to registration as unemployed.

Five states also provide for the payment of "additional" benefits after those computed on the regular basis are exhausted. "Additional" benefits are designed to give greater protection to the worker with a long and steady record of employment.

DURATION OF BENEFITS

The maximum duration of ordinary benefits is sixteen weeks in six state laws. Two laws provide for fifteen weeks while California and Wisconsin provide for varying durations.

ADMINISTRATION

In five states the administration of the unemployment compensation law was invested in a newly created commission. In four other states the administration of the law was placed under a previously existing state labor department. In Oregon the board administering the workmen's compensation act was given the administration of unemployment compensation as well.

Administration of the Wisconsin Unemployment Reserves and Compensation Act

Experience of pioneer social security state has value for other states which must assume similar responsibilities

RUSSELL HIBBARD — *Industrial Commission of Wisconsin*

THE Wisconsin unemployment reserves and compensation act has been in effect and employer contributions have been in process of collection for eighteen months, since July 1, 1934. Nine other state laws in this field have become effective very recently, on January 1, 1936. Because of this fact, Wisconsin's early administrative experience with its law may be of some interest and value to other states which will have similar responsibilities. This summary discussion will cover only those administrative features of the Wisconsin law which are of general interest, to the exclusion of other features which are of purely local or historical interest in Wisconsin.

The Wisconsin unemployment compensation act is administered by the Industrial Commission. This three-man body is vested with the final responsibility and authority in matters of policy and in adopting administrative rules and regulations. The commission administers nearly all of Wisconsin's labor legislation, including workmen's accident compensation, safety codes, wage collection, minimum wage, women's hours, child labor, employment offices, etc. This diversity of commission responsibility provides a valuable opportunity for coördination of effort between its various subdivisions. Cooperation between two of the commission's divisions, namely the employment service and the unemployment compensation department, will prove increasingly important as the benefit provisions of the unemployment compensation law take effect. Furthermore, the commission's working experience with the terms and problems common in labor legislation greatly facilitates its interpretation and administration of this new law.

Soon after the law was enacted the Industrial Commission appointed an "advisory committee," composed of three representatives selected by the Wisconsin Federation of Labor and three selected by the Wisconsin Manufacturers' Association. The members of this committee serve without pay because they represent the two groups most vitally concerned with the efficient operation of the law. During the past few years the advisory committee has been called into session many times, to counsel with the commission on matters of policy. It has played a particularly strategic part in connection with legislative matters. Every major bill of unemployment compensation amendments enacted in 1933 or 1935 was first scrutinized, discussed, revised, and then unanimously recommended to the legislature by the advisory committee. Each bill thus recommended passed both houses of the legislature without a dissenting vote. Through this representative group the commission is able to secure promptly the viewpoint of Wis-

consin employers and workers on major administrative questions, including the law's interpretation by general commission rules.

UNEMPLOYMENT COMPENSATION DEPARTMENT

Shortly before the law went into general effect the industrial commission created a special division, called the unemployment compensation department. This department has three major functions, as follows: (1) determining what employers are subject to the law; (2) collecting contributions; and (3) handling and paying benefit claims, including the hearing and settlement of disputed claims. To date the department has been concerned almost exclusively with the first two functions, since benefits will not become generally payable under the Wisconsin law until July 1936.[1]

Some forty-five persons are currently employed by the department (as of February 1, 1936), of whom approximately two-thirds hold clerical positions. All are under the state civil service law and were recruited on a nonpartisan, merit basis. In the case of clerical and stenographic employees, and also accountants, the state bureau of personnel was able to certify from established classifications, and from recent lists based on competitive examinations. Several new civil service classifications were established specifically for this work, however. Thus the present supervisor of contributions (comptroller) was chosen for this position on the basis of a special competitive examination, which was open only to experienced certified public accountants.

The examination procedure used in selecting men for the new classification of "unemployment compensation analyst" may be of some general interest. (These men were to handle interviewing and correspondence, and varied analytical tasks involving the law's interpretation and practical application.) The special examination given for this responsible position was both written and oral. The written examination was divided into three parts consisting of (a) about one hundred questions designed to show the general knowledge and intelligence of the candidate, (b) two hundred questions relating to specific provisions of the law, and (c) a typical employer letter of inquiry, to which the candidate was requested to write a clear and concise reply. Those candidates who successfully completed the written portion of the examination were then interviewed by a group of three individuals familiar with the law, namely one employer representative and one labor representative chosen from the advisory committee, and the director of the department. This group assigned a percentage rating to each candidate interviewed, reflecting his training, experience, and general fitness for the position. The top five men from the resulting list (based on combining written and oral examination grades) have been employed in the commission's unemployment compensation department.

The importance of using a merit basis of appointment cannot be over-emphasized. Unemployment compensation laws are necessarily complicated and difficult to administer, especially since they impose new responsibilities on large numbers of employers, and are bound to involve some changes in present employment policies. The success-

[1]It should be noted at this point that employers have been required to finance the Industrial Commission's administration of the Wisconsin law since July 1, 1934, by small additional contributions paid for this purpose to a special non-lapsing administration fund. Such administrative payments may later (probably in 1936) be decreased or entirely suspended—if and while federal aid is available and adequate for the law's administration.

ful administration of such laws will largely depend on that employer and employee goodwill and coöperation which result from tactful and efficient contacts. A merit basis in selecting administrative personnel should therefore be recognized as indispensable.

DETERMINING SUBJECT EMPLOYERS

The immediate concern of the commission, even before the law was in actual operation, was with methods for determining what employers were subject to the law. Although it was desirable to make such determination as comprehensive as possible before contributions were actually payable, it was not absolutely necessary to get in touch with every potentially subject employer because the Wisconsin law does not call for employee contributions. (If it had required deduction from employee earnings, the situation would naturally have been much more crucial because of the difficulty of picking up delinquent employee contributions.)

The first problem to be met was that of obtaining a satisfactory mailing list of potentially subject employers. For this purpose the commission relied principally on a list of larger employers, selected from the many thousands subject to the workmen's compensation act.[2] Additional "prospects" were found through checking with other state departments, whose licensing or contracting power prompted the maintenance of special lists. From these special lists were obtained the names of highway contractors, hotels, restaurants, breweries, creameries, trucking concerns, etc. Another source of potential employers was found in the corporate, partnership, and individual Wisconsin income tax returns, where a tentative selection could be made on the basis of deductions claimed for payroll expense.

To each such potentially subject employer the department mailed a printed "notice and instructions," and an "employer report" form. The employer report form required general information regarding the employer's business and annual payroll, and also called for specific employment data relevant to status under the act. Those employers who were sure they were subject to the law were permitted to state that fact, and were not required to supply detailed employment figures. Most employers who were informed concerning the law elected to follow this procedure, so that a majority of reports did not require detailed analysis.

Any employer who believed he was not subject to the law, or who was in doubt, was required to set forth his employment record in detail. An employer becomes subject to the Wisconsin law only if he has employed the required number of persons within the required number of calendar weeks within the given calendar year. Some Wisconsin employers did not even have weekly employment records; so it was necessary to permit them to fill out their reports on the basis of their shortest payroll period. A similar approximation will doubtless prove necessary for practical coverage purposes under most other state laws.

For each week or other payroll period the reporting employer was required to specify: (a) the total number of persons employed; (b) a classification of persons engaged in employments excluded from the act, with the number of persons in each excluded class; and (c) the net number of "countable" employees. Cursory examination of these

[2]Complete circularizing of all employers (of "three or more" persons) subject to the workmen's compensation act was not attempted under the new law, whose coverage was "ten or more" until recently. Complete circularizing might well have been desirable, however, and should be seriously considered in other states.

reports readily disclosed those employers who were clearly subject, and also those employers clearly exempted because of insufficient total employment. Detailed analysis was thus restricted to those cases where the employer's status depended on the validity of his claims that certain employees were excluded.

The law provided explicitly for a number of exclusions. Others were implied in the language used. All of these exclusions were separately stated and clarified in the commission's rules, and were summarized in the "notice and instructions." Accordingly, whenever an exclusion was claimed, the employer was required to classify and identify it by the applicable commission rule. In many cases the employer was merely asked to certify to the validity of the exclusion by quoting the applicable rule in full; but in other cases he was required to supply a full statement and description of the customary employment of the persons excluded. This general procedure focussed disputed questions of employer status on specific points of fact or interpretation, and thus reduced office handling and correspondence.

CONTRIBUTIONS

In preparing to collect contributions from employers, the frequency of reports and payments was one of the first decisions which the commission faced. Weekly? semi-monthly? monthly? quarterly? Too frequent reports would be a heavy burden on employers—too infrequent reports might foster delinquency. The commission finally chose a monthly basis of contribution reporting, which has proved acceptable to employers and sufficiently frequent for effective administration.[3]

[3]Partly as a result of the monthly basis of reporting and payment, there has been a very low rate of delinquency. Of course, the mandatory 12 per cent interest penalty in case of delinquency has also tended to reduce this administrative problem.

A related problem, involved in periodic reporting, was the accounting basis to be used. The commission might have required each employer to report his payrolls consistently on an accrual basis, by including all wages payable with respect to services within each month. Realizing, however, that many employers keep their records merely on a cash basis, the commission permits reporting consistently on a cash basis, or else on an accrual basis. It also permits the continued use of fiscal months.

At the close of each month, the unemployment compensation department sends printed contribution report-forms (covering the month just ended) to each employer, bearing his name and address, and the date by which his report and contributions are due. (This monthly mailing is also used as a convenient method of transmitting to employers new bulletins, rules or regulations adopted within the month, and helps to maintain a current contact between employers and the department.) To permit prompt handling of contribution reports and the daily deposit of checks received, the commission has assigned staggered "due-dates" to employers for their monthly contribution reports. Some employers regularly report on the seventh of the (following) month, others on the eighth, and so on through the twenty-fifth. Late due-dates are given, on request, to those employers who must compile reports for several scattered stores or plants. This system of staggered due-dates effectively spreads the accounting work of the unemployment compensation department throughout the month.

The collection of contributions is a problem somewhat analogous to that of determining employer status, and the contribution report-forms were prepared in accordance with the same principles as the preliminary employer reports.

The contribution report-forms call for a statement of (a) total payroll, (b) exclusions, and (c) the net (contribution) payroll. It should be noted that this report does not carry the names and wages of individual employees, but only the totals under the several items above. Exclusions are separately classified according to the commission rules which apply, and the employer is required to give the number of persons and total amount excluded in each classification. The commission keeps a record (in loose-leaf form) of the "validated exclusions" of each employer. As each monthly report comes in, the employer's exclusions are checked against this record. (Any reports claiming new or excessive exclusions are immediately referred to an analyst for correspondence, with a view to confirmation or denial of the exclusions.) Each employer's contributions, unless his report requires special consideration, are posted on his separate ledger account by bookkeeping machines, carbon copies of the entries being impressed on the journal account of receipts and on a receipt form which is returned to the employer.

Most of the department's administrative time during the first eighteen months of operation of the act has been devoted to analyzing these monthly contribution reports and determining the validity of payroll exclusions claimed by employers. This experience documents the obvious fact that the fewer the payroll exclusions (and the more definite), the lower will be the cost of collecting contributions under unemployment compensation laws. Where exclusions are non-discretionary and few in number, the initial sources of friction between the administrative department and employers will be correspondingly few, with the result that employer coöperation will be easier to secure and retain.

RECORD KEEPING AND REPORTING BY EMPLOYERS

Benefits payable by most Wisconsin employers do not start until July 1, 1936, and benefit rights of employees are based upon employment subsequent to that date. Hence it has not yet become important for them to maintain individual employee records suitable for benefit purposes.[4]

Starting July 1, 1936, every employer's records must of course provide certain basic data on each individual's employment. Regardless of the exact form in which an employer's records are kept, they will have to show the number of hours worked and the wages earned by each individual, in each separate calendar week. (The Wisconsin law, unlike the laws in several other states, does not base benefit rights on days of work, and therefore does not require daily employment records in connection with unemployment benefits.)

Many Wisconsin employers already maintain current individual employee records, for state income tax purposes. In most cases they will be able to modify these records so that they may serve for benefit purposes as well with a minimum of added record-keeping expense. An accurate calendar week record of each individual's employment will clearly prove essential, since the

[4]This point is of major importance for administrative purposes. The delayed accrual of benefit rights (as well as payments) makes it possible to put a law into gradual operation, instead of tackling every possible problem of record-keeping, reporting, etc. at the very start. Several state laws have recognized this problem by delaying the accrual of benefit rights until after at least one year of contributions. (In New York, the advisory council has recently recommended to the legislature an amendment along these lines to permit another year's time for the careful working out of procedures.)

Wisconsin law makes each calendar week the basic unit for determining partial unemployment, total unemployment, weekly benefit rate, etc. (But salaried employees, because their weekly hours and pay are fixed, may be an exception to the general rule of weekly records.)

No employer will need to change his pay days (or frequency of payment) on that account; but many employers will doubtless find it convenient to make the calendar week their basic payroll period. In a few months the Industrial Commission plans to inform employers more definitely what basic facts their employment records must show, with a view to requiring as little change in employer record-keeping as may prove necessary to administer the law on a practical basis.

What reporting of these individual employment records will the commission require of employers for benefit purposes? The commission could, if it thought this necessary or desirable, require each employer to report his complete payroll (showing each employee's name, hours, and wages) at the close of each payroll period; and might then currently maintain an up-to-date central office record for every employee subject to the Wisconsin law. (Such a procedure has been seriously considered in several "pooled fund" states; and may later be adopted, especially where employee contributions are involved. Central office reporting would doubtless have certain real advantages, even under the Wisconsin employer "reserves" type of law; but the industrial commission feels that its burdens should be avoided, if possible. Accordingly, the commission hopes to follow a less expensive and more flexible reporting procedure.

Each employer will doubtless be asked to report currently his lay-offs and other "separations," and to supply a full record of each individual's employment whenever that record becomes necessary to determine what benefits may be due the employee. Instead of current reporting by every employer on each employee, this will mean only periodic reporting in summary form; and will affect only those employees (of those employers) directly concerned with unemployment and benefits. The procedure of limited reporting thus planned will of course stand or fall on the accuracy and availability of employer records. If it doesn't work out in practice, the industrial commission may later be forced to require complete central office reporting.

CONCLUSION

Administrative experience under the Wisconsin unemployment compensation act has so far been limited almost entirely to determining employer status, and collecting employer contributions. Hence this article does not attempt to discuss the major problems involved in paying benefits, which Wisconsin will shortly face, more than a year in advance of other states. In summary, Wisconsin's administrative experience to date indicates the importance to other states of (1) efficient personnel selected on a merit basis, (2) early determination of employer status, using such forms as will minimize correspondence and friction, (3) simple but inclusive contribution reporting, at intervals consistent with low cost to employers and reasonable administrative efficiency, and (4) participation in the law's administration by the interested groups, through their chosen representatives, thereby securing that informed consent without which administration cannot function effectively in a democratic society.

Public Employment Offices and Unemployment Compensation

Well organized and efficiently administered system of public employment exchanges necessary to a successful functioning of national program of unemployment insurance

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A prerequisite to the effective administration and successful functioning of a comprehensive national program of unemployment insurance is the existence of a well organized and efficiently operating system of public employment exchanges. In recognition of this necessity, the federal social security act includes provisions for "payment of unemployment compensation solely through public employment offices in the state or such other agencies as the (Social Security) Board may approve."

Superficially, public employment offices may seem to serve as little more than the local point of contact for beneficiaries; actually, however, they are responsible for numerous activities, the organization, integration, and operation of which spell the success or failure of unemployment insurance administration.

For beneficiaries as well as all others seeking employment, public employment offices perform three functions: they register them, keep the necessary records, and place them according to their abilities. In connection with unemployment compensation, to these functions are added the payment of benefits and the adjustment of claims for beneficiaries with the attendant complexities of record-keeping these responsibilities entail.

Registration: In accordance with all unemployment compensation laws in this country and abroad, an unemployed insured worker must register at a public employment office as one requirement to qualify for benefits.

Record-keeping: The terms under which the unemployed receive compensation have a vital connection between the duration of previous employment and the extent of benefits. This gives rise to the necessity of maintaining complete records of previous work history, vocational capabilities, possible alternate occupations, and earnings. Although definite plans for the maintenance of these records have not as yet been entirely formulated, it is expected that in the several states of this country, as abroad, they will be closely identified with the public employment offices. It may, therefore, be logically assumed that their maintenance will be the most voluminous and exacting task confronting the offices.

Placement: One important contingency in an individual's right to unemployment benefits is his inability to find suitable work after a lay-off. His refusal to accept a *bona fide* offer of work is sufficient cause to withhold benefits. On the other hand, active promotion of placement of individuals for whom employment can be found, in order to prevent a serious drain on the reserve funds and to safeguard against malin-

gering, represents one of the most vital problems confronting the employment office in the administration of unemployment compensation.

Payment: The individual's employment record, maintained as it probably will be by the employment offices, will be the basis for payment of unemployment benefits. Experience abroad has shown that disbursements to the individual at the point of local contact (which is the employment exchange) are most satisfactory not only to the beneficiary, but also for insuring a better administrative control.

Adjustment of Claims: However well organized and faithfully administered unemployment compensation may be, a large number of claims will inevitably arise out of differences of opinion between officials and beneficiaries. While the settlement of the majority of claims will be a matter of routine office procedure, of necessity there must be machinery for the adjustment of disputed cases. It is, therefore, logical to locate the appeal officials in the employment offices, because of the accessibility of the records of the beneficiaries and the information pertaining to the operation of the offices.

EUROPEAN EXPERIENCE

There are eleven European countries that are now operating some form of unemployment insurance plan ranging from compulsory unemployment insurance under governmental control, to the state-subsidized voluntary insurance having varying degrees of coverage and differing principles of responsibility.[1]

However, their most common characteristic is their use of the public employment offices as an operating unit in their local administration. All eleven countries utilized existing agencies when organizing their insurance plans, and where public employment exchanges were in operation they became an integral part of the program.

Only Belgium, France, and Italy do not recognize the employment office as a part of the set-up; Belgium and France, because they operate state-subsidized voluntary insurance and relief plans through trade unions and local agencies; Italy, because it operates through the National Institute of Social Insurance established by governmental decree and coördinated with compulsory invalidity and old-age insurance.

Great Britain and Germany are notable for their use of the public employment exchanges. In each of these countries, the employment offices register and place workers, determine claims, and pay benefits. Their local managers pass on individual claims, offering employment if available, or if not, paying benefits where warranted.

Although compulsory, operation of Germany's unemployment insurance is delegated to the "National Institution of Employment Exchanges and Unemployment Insurance" referred to as the "Reichsanstalt." This is an independent public corporation, but so high is the degree of public interest in it and its operation that its president and vice presidents are appointed by the president of the Reich. On its governing board, workers, employers and the government are equally represented.

Despite its independent nature, it has incorporated Germany's public employment exchanges in its organization and nearly four hundred local offices are engaged in administering its local affairs.

In Great Britain there had been established the first coördinated system of public employment bureaus under the Board of Trade two years before the enactment of the national insurance act of 1911. Later, in 1917, the ministry of labor assumed charge of them, but from

[1]See "The Administration of Unemployment Insurance"; Monograph Five, Series on Social Insurance: Metropolitan Life Insurance Company, New York, 1932.

the passage of the insurance legislation they have been a correlated part of the unemployment insurance administration.

Austria operates compulsory governmental insurance under the ministry of social welfare, not unlike that of Great Britain; while Denmark, The Netherlands, Czecho-Slovakia and Norway operate voluntary systems through labor unions. Switzerland's state-subsidized plan depends upon the election of each canton, whether it be compulsory or voluntary. Regardless of the form, each of the foregoing incorporates in its general plan the public employment office.

Recognizing the vital importance of conserving their reserve funds, every insurance plan in Europe that functions in coöperation with the public employment offices (and these represent eight countries out of the eleven having insurance plans) requires that the unemployed seeking compensation must report as frequently as two or three times a week to the employment office for placement in available job openings.

UNITED STATES EMPLOYMENT SERVICE

The passage of the Wagner-Peyser act on June 6, 1933, inaugurated a federal-state affiliation in the conduct of public employment offices which has been a most fortunate preparation for the operation of unemployment compensation. Besides providing assistance by matching state appropriations, the federal government, through the United States Employment Service, assists in developing and prescribing uniform standards of operation, while leaving the operation of the offices directly to the states.

In addition to the affiliated federal-state employment service, a temporary agency—the National Re-employment Service—has been organized by the United States Employment Service primarily to serve the recovery program, but now taking on the aspects of a permanent service through its effective work in making placements in private industry.

An idea of the size and scope of these organizations may be gained from a recent statement made by William H. Stead, associate director for standards and research of the United States Employment Service, when he reported that:

> At the close of December 1935, a preliminary report indicates that there are approximately 232 district State Employment Service offices in operation, supplemented by 36 branch offices. At the end of November, there were approximately 490 district National Re-employment Service offices supplemented by approximately 1330 local offices. This does not include 45 National Re-employment Service and 34 State Employment Service administrative offices.

ACTIVITIES OF THE PUBLIC EMPLOYMENT SERVICE

Both quantitatively and qualitatively, the activities of the present public employment offices excel any previous employment service in this country. By raising the standards of personnel requirements, a more professional and better qualified staff has been secured for the offices. By instituting standard forms, procedures, and reporting, an improved functioning of the offices has been effected. By having been designated to make placements on all emergency work relief programs, from CWA to WPA, a wealth of experience has been gained in a few years that would otherwise have taken a generation to acquire.

Since the reorganization of the public employment service in 1933, over twenty million new applicants for work have been interviewed and classified occupationally. In the same period over thirteen million placements have been made, over six million on work relief jobs, and nearly seven million in

private industry and on public works.[2] In addition to the registration and placement activity, all offices have received frequent revisits and inquiries from applicants, so that the total number registered is by no means an indication of the total activity.

On the other hand, the effort of the offices to secure openings for the unemployed in private industry is represented by over two and a quarter million field visits, all of which were made at a time when the offices were burdened with a multitude of applicants, with placements to be made and with a volume of record-keeping and maintenance that kept them working overtime, Sundays and holidays included. It might surprise one unfamiliar with the record procedure of an employment office to learn that in a file of a hundred thousand work registration cards there are about fifteen thousand changes in records to be made in a single week, including about four hundred address changes occurring each day.

Demonstration offices at Minneapolis, Rochester, and Philadelphia have been pioneering in the improvement of the employment service. It was in these offices that the system of daily statistical reporting was first tried, that new record forms and application cards were designed and new procedures devised. Despite their experimental nature, they have demonstrated the practicality of sound research methodology when applied in the field. They have served as training schools not only for their own state services, but also for the country as a whole. Dr. Oscar Weigert, German unemployment insurance authority, pronounced them finer than any similar offices abroad. They have set a high standard of achievement to which all state directors are endeavoring to raise their local offices.

In preparation for social security the United States Employment Service has instituted a system of perpetual inventory, centralizing in Washington by the use of a punch card system a complete statistical control over the records of every individual registered with the service, assigning individual identification numbers and recording every change in status that affects that individual.

With this brief resume of the activities of the employment service, an appraisal can now be made of what experience is available within the present employment service and what development is needed to make unemployment compensation work.

NEEDED DEVELOPMENT

There can be no question but that the United States is better prepared for the advent of unemployment insurance than were any of the countries in Europe. Those who have had an opportunity to compare the employment services here and abroad immediately prior to the institution of unemployment insurance testify to the generally higher standard of the average offices here. Besides having the advantage of the experience of European employment offices, the United States Employment Service has had by virtue of its years of existence a greater opportunity to perfect its standards of operation and has reached a higher stage of development than had the public employment offices abroad before they became an integral part of the administration of unemployment insurance.

In the functions of registration, record-keeping, and placement, the United States Employment Service has had all the necessary experience to qualify for the same functions under the social security act. However, its experience

(Continued on Page 186)

[2]Preliminary figures on operations of combined State Employment Service and National Re-employment Service for period ending December 31, 1935, not as yet officially released.

Old-Age Insurance Under the Social Security Act

Adoption of a contributory insurance plan is necessary to cope with the large and growing problem of old-age security

J. DOUGLAS BROWN *Staff Consultant, Committee on Economic Security*

TO MANY students of welfare legislation in this country, the enactment of the old-age insurance provisions of the social security act proved an almost startling surprise. Several years of serious unemployment and of lively controversy concerning the merits of the British, Wisconsin, and Ohio plans for unemployment compensation had diverted a large part of the intellectual interest in social security legislation to that aimed at the unemployment problem. But neither concrete developments in this country nor the deep-seated concerns of our people warranted the heavy discount placed upon other forms of social insurance applicable to American problems. Quietly but effectively forces were at work to make some constructive step in old-age security both politically and economically necessary.

In the field of voluntary programs for employee security—an influential area of experience in this country—industrial pension schemes had preceded and far outstripped in coverage and effectiveness a meagre experimentation with unemployment benefit plans. In state legislation the movement toward old-age assistance programs was gaining momentum rapidly. While intellectuals were debating the relative merits of pooled funds and company accounts in unemployment compensation administration, the man in the street and the man on the farm were joining by thousands and tens of thousands the Townsend clubs and many earlier organizations which promised old-age security. As long as the current relief program was adequate, the younger two-thirds of our population seemed little interested in improved arrangements for aiding the unemployed of some years hence. The older third, however, were looking with growing anxiety to the time when emergency relief would become a thing of the past though employment for them would be limited.

This spread of voluntary schemes, state legislation, and popular movements has been symptomatic of an awakening to a problem long facing our country. While the depression accentuated *all* elements of social insecurity, in the case of old age it did little more than bring to the surface certain persistent changes which are creating a mounting burden of dependency. Although these changes are inherent in American life, their effects have accumulated too gradually to attract any comprehensive analysis.

The most fundamental of these changes is that in the age distribution of our population. A declining birth rate, an increased expectancy of life, and a sharp reduction of immigration are combining to shift the balance toward the older end of the scale. Advances in medical science and public health are adding years to human life. Between

1930 and 1960, the age group sixty-five and over will approximately double, while general population will grow at a far less rapid pace. By the latter year, this group will approximate 13,600,000 persons, or 9.3 per cent of our population. It might be said that as a people we are approaching "middle age." With middle age we become concerned with what lies ahead in the later years of life.

THE GROWING PROBLEM OF OLD AGE

But the lot of the old person in 1960 may be even less bright than that of those who now constitute that group, unless constructive planning is done. The rapid pace of modern industry is not so kind to age as the more adjustable routine of the farm. Large-scale production has placed a premium on youth with its vigor and adaptability to new methods. Once displaced by depressional shut-downs or technological change, the older worker finds difficulty in regaining a self-sufficient status in his declining years. While physical life is reaching farther into the late sixties and seventies, permanent displacement for many thousands of wage-earners is ebbing back into the early sixties and fifties. The widening gap between economic displacement and death is no peaceful prospect for the wage-earner of modest income. With neither a farm nor a large growing family as a future means of support, the urban factory worker has lost much of that sense of security which his grandfather possessed.

Against this background, it is not difficult to understand the fundamental character of the movement for old-age security nor the reasons which led to the enactment of the old-age assistance provisions of the social security act. The urgent necessity for extending and improving state assistance machinery was clearly indicated in the first surveys made by the Committee on Economic Security, as it had been by the studies of other organizations interested in public welfare. But the immensity and permanent character of the problem likewise became apparent. The huge costs and unfortunate by-products of the relief technique could not be overlooked by technicians working in daily contact with the federal relief administration. And further, there was a presidential mandate for a comprehensive and permanent security program. With a growing realization of its necessity, an old-age insurance program was developed as a part of a coördinated attack on mounting old-age dependency.

HIGH COST OF OLD-AGE ASSISTANCE

It is but necessary to project estimates of the cost of old-age assistance programs a generation into the future to become convinced of the necessity of a more constructive method to supplement and control their use. Based on population statistics and the experience of other countries, the actuaries of the Committee on Economic Security estimated that by 1960 the old-age dependency load in this country would be 6,800,000 persons with the federal government's share of the financial burden *alone* exceeding a billion dollars a year. But despite its growing amount, this diversion of public funds would barely meet the problem of dependency. As needs-test relief provided in strictly limited amounts, it would do little more than prevent distress after self-sufficiency was impossible. But relief grows on its own generosity. To control relief expenditures and to *prevent* dependency rather than to relieve it, a contributory insurance plan seemed necessary. Not only would the contributions permit more adequate benefits, but with benefits related to contribu-

tions in the individual case, the whole mechanism would take on the character of a coöperative self-help program.

PRINCIPLES OF A PUBLIC CONTRIBUTORY OLD-AGE INSURANCE

The main features of the old-age insurance system established by the social security act and the reasons for their inclusion can be hardly more than outlined within the limits of a brief article. Since the schedules of contributions, benefits, and reserves have been widely reproduced, a restatement of these more statistical elements seems unnecessary.

Probably the most significant principle inherent in the system is that of equal compulsory contributions by employers and their employees computed as a percentage of wages. It was believed that protection in old age was the financial concern not only of the individual worker, but of his employer as well; that the latter was both benefited by a satisfactory retirement mechanism and competent to share in its cost. Industrial pension programs give evidence of this fact. The decent support of the wage-earner in old age seems a proper charge on production, which the employer may, in many cases, pass on to the consumer or meet out of the more efficient operations which sound personnel practices make possible. He may otherwise shift the cost to labor or be compelled to bear some part from profits, as economic forces dictate.

In order that the impact of this new tax on employers and workers be softened and time afforded for various adjustments, it is provided that the rates will increase gradually over a considerable period of years. Not only will such slowly rising charges find their way more smoothly into price and wage adjustments, but the revenues from the taxes will more closely parallel the gradual increase in benefit disbursements.

Since the insurance system, like all social insurance, is primarily intended to provide basic protection for the wage-earner and the lower-salaried worker, the tax established is limited in application to the first $3,000 of annual income from a single employer. Benefits, likewise, are based on this bracket of wages so that, laborer or executive, everyone covered by the system is afforded some protection in old age.

SCHEDULE OF BENEFIT FAVORS LOWER PAID WORKERS

The benefit schedule provided involves other important departures from private annuity principles. The basis for benefit computation is the sum of wages covered by the tax throughout the life of the worker. Since the lower brackets of this total count more heavily in the computation of monthly benefits, there is a marked graduation in the ratio of benefits to the total wage base. This graduation favors those whose wage total from the time of entrance to the system until the time of retirement is relatively small. The purpose of this graduation is twofold. First, it affords higher proportionate benefits to all individuals coming under the new system late in their working life. In this way, the effect of the system in preventing mounting dependency is greatly accelerated. The meagre annuities possible on an "earned" basis are sharply increased in those cases where the wage total is small. Second, the lower-paid worker receives a higher proportionate benefit whether entering the system early or late. While benefits more directly proportionate to contributions are justified in commercial insurance practice, the federal system is intended to prevent dependency among as large a part of our population as possible, both in the next decade and in the decades to come.

The graduations in the benefit schedule can be justified on other than broad

social grounds, however. The higher benefits paid to persons now late in life include an element similar to credits for past service usually granted in newly established industrial pension plans. Most companies have found that such credits are necessary to insure adequate retirement annuities to those persons whose displacement is necessary to maintain efficient operations. The proportionately higher benefits will aid the great majority of employers now without pension plans to meet their superannuation problem in a decent and efficient manner and, in general, give employment to thousands of younger men.

It is also true that lower-paid workers receive the greater share of their wages in the physical prime of life, whereas the salaries of higher-paid "white-collared" workers tend to remain constant or rise in their later years. Since, in the long run, interest accumulation is an important element in computing old-age annuities, it is both just and accurate to give a relatively higher annuity to the laborer whose contributions, though small in total, have been concentrated in an earlier period of life.

The death benefit feature included in the system is intended to return a rough equivalent of a worker's contributions, not offset by benefits received, to his heirs in case of death. The justification of such a feature has been widely accepted, subject to the development in years to come of some closer adjustment of the benefit to survivors' needs.

RESERVES

But any system of old-age annuities involves serious problems other than the determination of contributions and benefits. Even in private insurance systems the handling of rapidly accumulating reserves becomes a matter of considerable concern. In such systems, the problem is one of investment of funds on a safe and profitable basis. The test of the financial soundness of the scheme is the availability at all times of a reserve equivalent to the liabilities incurred.

In the planning of an old-age insurance system covering twenty-five million workers, the accumulation of a full reserve would involve an unprecedented distortion of both governmental and private finance. To invest the billions of dollars involved would eventually require the withdrawal of all federal securities from the public and the issuance of additional securities, if only federal securities were used. Meanwhile the diversion of these sums from the normal channels of business to governmental spending would not only lead to governmental extravagance but to serious effect on business activity, unless other taxes are reduced. Since disbursements would never absorb the huge reserve, the interest charges paid out of current taxes would become virtually an "endowment" income to the system. The vast portfolio of securities held in the reserve, though still an evidence of obligation, would become merely a legal mechanism for the diversion of general tax proceeds into old-age benefits.

At the other extreme in financing methods, all reserves might be avoided in order to maintain the scheme on a "pay-as-you-go" basis. This method would require a precise balancing of contributions and benefit payments throughout the life of the system. In this way all disturbance to the flow of consumer purchasing power would be avoided since as fast as funds were collected from the employers and workers of the country other workers eligible for benefits would receive them for immediate use. Since there would be no net income to invest, governmental finance and debt operations would not be

affected. The old-age insurance system would become a clearing-house of current funds.

In principle, this "pay-as-you-go" method is that toward which any public old-age insurance system should tend. With the advantage of compulsory coverage, large reserves become unnecessary and dangerous. But precise matching of income and disbursements is not feasible for two major reasons. First, business cycles and changing wage rates affect income immediately, whereas disbursements to those receiving benefits are relatively stable. Second, in a new system, contributions may precede benefits by as much as several years in order to establish a basis of benefit payments related to the contributions collected from the individual worker. For these reasons, a compromise seems desirable —the accumulation of a small contingency reserve. Drawn from early contributions, this reserve should be sufficient to meet net disbursements in time of depression.

THE ORIGINAL PLAN

It was on such a compromise between the full reserve and "pay-as-you-go" methods that the federal system was originally planned. A combined tax schedule rising from 1 to 5 per cent over a twenty-year period was designed to hold down reserves, as well as to soften the impact of the new taxes. At the same time, the payment of "unearned benefits," justifiable on social grounds, served to increase disbursements in the early years of the system. This lower rate of contribution coupled with "unearned benefits," while keeping reserves within manageable limits in the early years of the plan, did so at the cost of net deficits some twenty-five years hence. At that time the funds previously diverted to "unearned benefits" were to be replaced by governmental subsidies to the fund.

There is much justification for subsidies to an old-age insurance system in addition to their role in equalizing income and outgo of funds. The "unearned benefits" paid to accelerate the effect of the system as a means of avoiding dependency relief are certainly in the public interest and a proper charge on general tax funds. To the extent that dependency relief is reduced, the government has made a saving. If, on the other hand, the deficit is met by higher rates of contribution, the younger worker and his employer bear the burden as an addition to the cost of his own benefits.

Further, there are definite limits to the proper use of payroll and wage taxes rather than other sources of revenue in financing a social insurance protection. The benefits afforded to lower-paid workers under this mechanism have many indirect effects in the stability and effectiveness of our economic system, as well as in improving national standards of life. It seems reasonable, therefore, that the general taxpayer should assist in financing this mechanism as a socially beneficial improvement upon dependency relief.

It was in regard to this low reserve plus subsidy principle, which was incorporated in the original social security bill, that much misunderstanding later developed. Soon after its introduction, failing to recognize the dangers of high reserves and the justification of eventual subsidies, the Secretary of the Treasury requested Congress to amend the bill to make the old-age insurance system "self-sufficing." By a change in the schedule of contributions, the income of the system was greatly accelerated in volume. The large reserves eventually resulting were intended to make subsidies unnecessary, since the interest income, added to a higher permanent contribution rate, was to keep the system

"self-sufficing." Since few persons in Congress opposed this apparently conservative amendment, it was adopted without question.

Since that time, increasing criticism has been levelled at the reserve aspect of the old-age system as enacted. With increasing understanding of the problem, there is little reason to doubt that the act will be revised in sufficient time to prevent the accumulation of unnecessarily large reserves. This can be readily accomplished by a retardation of the rise in contribution rates over the next decade or two and the reinsertion of the lower maximum rates included in the original bill. At the same time, however, the principle of eventual federal subsidies to the system must be accepted as the price of a workable system.

OTHER PROBLEMS

Although the contribution-reserve-benefit complex is the core of our old-age insurance system, many other features warrant discussion. Why was a national system established rather than the framework for forty-eight state plans? Why were farm labor, domestics, and the employees of various non-profit organizations, among other groups, eliminated from coverage? What will be the effect of the system on industrial pension plans? But brief comment can be made in answer to these questions, among the many others which arise.

A federal system was adopted for the simple but convincing reason that separate state old-age insurance systems appeared actuarily and administratively impossible. Since, under any feasible system, rates of contribution and benefits are based on age distribution estimates computed for decades in the future, the changing population of a single state proves an impossible working basis. While trends in immigration, birth and mortality rates are relatively manageable factors for the country as a whole, the shift of a single industry or the rapid growth of a single city may affect materially the age distribution of a state. The rise of the automobile industry in Michigan and the decline of textile manufacture in New Hampshire inevitably alters the age distribution within these states. The influx of old persons into Southern California in recent years would have wrecked any state old-age insurance system previously planned on any manageable basis. The mobility of our American population throughout working life would create untold administrative complications in the operation of forty-eight state systems which varied in contributions, reserves and benefits.

The exclusion, among others, of farm and domestic employments from coverage under the system was based on administrative expediency. The great number of independent establishments which would have to be covered in administering a tax on these employments was alone a sufficient cause for hesitation. Further, the home and the farm are usually far less accessible for tax collection purposes than the factory, office, or store. The probable attitude of farmers and housewives to the accounting routine of frequent tax payments is not such as to aid effective enforcement of a weekly or monthly payroll tax. The exclusion of the employees of religious, educational, and charitable institutions was the result of requests by the representatives of these non-profit organizations. When the benefits of the system are better understood, the employees thus "exempted" may question the wisdom of this choice. In the case of most of the excluded employments, the chances are that many *employees* currently affected will come under coverage elsewhere during at least a part of their working lives.

The effect of the old-age insurance system on existing pension schemes has already aroused some apprehension. But where employers have studied the problem, solutions have proved quite feasible. The voluntary plan still has its place in supplementing the basic protection afforded at a gradually increasing level by the federal system. Not only will many higher-salaried employees need more liberal annuities than those possible under the act, but most lower-paid workers will not be adequately protected by federal benefits alone for many years to come. In those companies in which retirement annuity programs have proved their merits as sound personnel practice, the federal system with its "unearned annuities" will prove a help rather than a hindrance in handling the problem of superannuation.

The federal old-age insurance system is more than New Deal experiment. The growing problem of old-age dependency demanded a constructive solution. Experience abroad and at home pointed to the contributory insurance principle as the basis of that solution. A rational application of that principle with caution and willingness to learn seemed sound common sense. We must now await the verdict of nine gentlemen in black robes as to whether common sense, in this instance, can be legally applied.

PUBLIC EMPLOYMENT OFFICES

(Continued from Page 179)

with benefit payments and the adjustment of claims is totally lacking. A conscientious effort must be made within the next two years to perfect these techniques. This can be accomplished through carefully planned research and experimentation in the same manner that the demonstration offices improved the employment techniques.

In addition, there must occur the expansion of state services either by merging or taking over the work now done by the National Re-employment Service so that every community will be adequately served. The extension of the affiliation agreements provided in the Wagner-Peyser act to every state is the initial and necessary step toward accomplishing this expansion. While the operation and direction of the employment offices must be carried on by the states, the coördination and unification of the whole system must be promoted by the United States Employment Service.

Within individual offices there must be developed a higher degree of functional operation as well as a greater degree of specialization not only of the individual tasks but also of the worker. The optimum size of office should be ascertained and in so far as local conditions permit, this size should become the standard.

Whatever may be the present size of individual employment offices, administration of unemployment compensation will necessitate increased personnel. Since the operation of the office cannot rise above the calibre of its staff, the problem of selection becomes paramount. In order to operate efficiently and impartially, experience dictates the adoption of civil service as the best safeguard.

Increasingly higher standards of performance will be demanded of the public employment service, if it is to discharge its responsibility in the most socially significant peace-time administrative undertaking that this country has known.

NEWS OF THE MONTH

NOTES AND EVENTS
Edited by H. M. Olmsted

First Federal Social Security Payments Made.—On February 13 and 14 the first checks of the federal government under the social security act were mailed to states with federally approved plans for assistance to the needy aged, dependent children, and needy blind. They covered appropriations for February and March, and totaled $4,446,622 for eighteen states and the District of Columbia.

*

Ohio State Police School.—The fourth short course on police administration at the Ohio State University, Columbus, will be held March 23 and will continue during the remainder of the week, under the direction of Professor Harvey Walker. The program presents many outstanding experts on a wide range of subjects of interest to law enforcement officers, and includes laboratory work and a visit to the United States Industrial Reformatory at Chillicothe.

*

Council-Manager Developments.—Salem, Oregon (population 26,266) on January 31 voted against the adoption of the manager plan by 4,051 to 2,339.

Oakland, Me., adopted a manager charter by popular vote on February 8, replacing a manager ordinance adopted in 1935.

Bills for two plans of city government were filed on January 11 in the Massachusetts legislature through a petition of the Massachusetts People's Rule Association. The first, embodying "Plan E," provides for a form similar to that of Cincinnati, Ohio, and calls for a council elected by proportional representation and for a city manager. "Plan F," under the second bill is similar except that it provides also for the appointment of a director of education by the city council and for all other powers of the school committee to be vested in the council.

*

Toledo Citizens' Survey Report.—The Citizens' Survey Committee of Toledo, Ohio, an independent group of citizens and taxpayers, has recently been issued. In the words of the Toledo *City Journal,* published by the city's Commission of Publicity and Efficiency, "It has given the people a good, concise analysis of their municipal affairs. It has furnished an excellent working basis upon which a new form of government can begin rebuilding services, adding new services, and furnishing better, more efficient services." (Toledo went under the council-manager form on January 1, 1936.)

The report of the committee, which engaged Dr. Lent D. Upson to conduct the survey, deals with the city's operating deficit, among other matters. This is particularly important in view of the rigid and restrictive 1 per cent tax limitation amendment which took effect in Ohio on January 1, 1935.

*

Municipal Association Represented in Washington.—The American Municipal Association, the membership of which consists of the leagues of municipalities in thirty-six states, has appointed a permanent full-time representative in Washington, D. C., who entered upon his duties February 1. He is Earl D. Mallery, former city manager of Alliance, Nebraska, member of the Nebraska States Planning Board, and of the board of the Nebraska League of Municipalities. Growing concern of cities in affairs of the federal

government, due to events of the past three or four years which make necessary closer coöperation between the two levels of government, is the cause of this action by the association, according to Clifford W. Ham, its executive director. One situation in point is the nation-wide relief problem; and many other situations are demanding mutual understanding on the part of the federal and municipal governments. While the association is not a lobbying organization, yet by having a spokesman for the cities available to Congress and federal administrative departments, he believes it should be possible to facilitate this coöperation.

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Restoration of City Pay Cuts.—The United States Conference of Mayors, which issued a report in December 1934 on this subject, has made public another report which brings information on the general situation up through the past year. About one hundred cities are included. Of twenty-seven cities in the group which reported partial restorations up to December 1934, eleven have made further restorations, four have or will make complete restorations, and twelve have taken no further action. In thirty-five cities of the group reporting no restoration up to 1934, nineteen now report partial, six report complete restoration, and ten report no action; and in seventeen cities not included in the 1934 report we find nine cities reporting partial restoration, four reporting complete restoration, and four reporting no restoration.

In addition to twelve cities that had made complete restoration to December 1934, fourteen more have made or will make such restoration. Six cities in the previous report had made no general pay cuts, and the new report adds another to the list.

*

Governmental Broadcasts in Boston and New York State.—On February 3, 1936, the Yankee Network News Service started an innovation in Boston, Massachusetts, in the form of a series of daily items on expenditures that affect the tax rate, in the regular seven o'clock local news broadcast, over Station WAAB. These brief items are offered to familiarize residents with local city government and to offer constructive suggestions to increase the efficiency of local government and aid reduction of the tax rate. They are supervised personally by John Shepard, 3rd, president of the network, and are arranged by H. C. Loeffler, secretary of the Boston Municipal Research Bureau and Leland Bickford, editor-in-chief of the Yankee Network News Service.

The municipal radio series which is sponsored by the New York State Conference of Mayors, and broadcast over Station WGY, Schenectady, is being re-broadcast by Station WCAD of St. Lawrence University, Canton, New York.

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Scholarships for Governmental Training.—Thirty college graduates are offered an opportunity to study the operation of the federal government at first hand through the National Institute of Public Affairs, which has announced its 1936 competition for scholarships for interneship training in Washington, D. C. The thirty persons who are to be chosen after March 16, when application lists close, will report to the institute's headquarters in the Investment Building in Washington in September of this year, to remain until June 1937. By arrangement with the heads of a number of federal bureaus they will work as unsalaried, full-time employees in various departments, thereby being enabled to observe many aspects of public affairs. Weekly round-table discussions with legislators, press correspondents, lobbyists, administrators, business men, and educators will add to this knowledge. Graduate courses can also be taken at American University in Washington.

Started as an experiment in 1934-35, when two groups of forty students each received three months of such training, the institute is now on an annual basis.

COUNTY AND TOWNSHIP GOVERNMENT

Edited by Paul W. Wager

Georgia—Atlanta-Fulton Merger Proposed.—Last fall a great deal of interest was aroused in a proposed merger of the governments of the city of Atlanta and the county of Fulton. The city council passed a resolution by a substantial majority authorizing a "merger commission" to study the question. Members of the commission were appointed by Mayor James L. Key.

The commission recently recommended a referendum which would allow the voters to

express opinions on the advisability of merging the activities of each of several city and county services, but the city council after considerable delay has voted against the proposal and the board of county commissioners continues to ignore it.

It has been pointed out by Mayor Key that mergers have already been accomplished in the relief, water, fire, and sewerage departments with a partial merger of police departments as county police get all their radio calls from the city station. Contending that all these have been successful and economical, he would extend the plan to cover practically all city-county activities. Successful school mergers between some of Georgia's more populous cities and counties have been frequently referred to in the Atlanta fight.

The question is almost certain to be injected into the next campaign of members of the city council and board of county commissioners. One of the Atlanta papers plans to run a series of articles shortly dealing with every phase of the proposed merger.

J. Thomas Askew

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Ohio—Courts Void Cuyahoga County's New Charter.—In a unanimous opinion down on February 26, the Ohio Supreme Court junked the new Cuyahoga County home rule charter, providing for a reorganization of the county's present archaic government, on the ground that it vested municipal powers in the county and therefore was not approved by a sufficient number of electors.

The court ruled that although the new charter, the culmination of a year of exhaustive study by the charter commission, had been approved by a majority of electors in the county and in its largest city, Cleveland, it had to pass the so-called "four-hurdle" vote before it became effective. These four-hurdles require a majority of votes in the county, a majority in the largest city, a majority in the county outside the largest city and a majority in each of a majority of all the municipalities and townships of which there are sixty.

The decision cited four provisions in the charter as usurping municipal functions: (1) Giving the county council power to enact ordinances; (2) expanding the police powers of the sheriff's office to establish a county-wide police force; (3) provision for the initiative and recall; and (4) creation of a county civil service commission. The decision held that any charter giving municipal functions to the county, regardless of whether they were exclusive or concurrent powers, would have to be upheld by the "four-hurdle" majorities. The case reached the court on petition of Paul Howland who led the campaign resulting in the passage of the county home rule amendment to the Ohio constitution. He was contesting the refusal of the Cuyahoga County Board of Elections to certify that the charter had been duly approved at the fall election.

The court said in part: "We cannot subscribe to the theory that the requirement with reference to special majorities has application only if a municipality is to be completely swallowed by the county and entirely lose its governmental entity. The requirement as to special majorities was included to afford an opportunity for the municipalities to protect themselves and preserve their municipal integrity through the ballot. . . . In numerous instances the charter seeks to vest in Cuyahoga County powers which are vested in municipalities by the Constitution or laws of the state."

Louis H. Birnbaum

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Nebraska—District Court of Douglas County Holds County Manager Law Valid.—In the general election of November 1934 the voters of Douglas County, Nebraska, approved the county manager form of government effective January 1, 1937, by a majority of 13,000 after an intensive and vigorously fought campaign of six weeks. The plan followed in the main the model form for county manager approved by the National Municipal League—the submission to the electorate being made possible by a legislative enabling act of the 1933 session. Among offices to be abolished was register of deeds.

A fund rumored to exceed $8,000 was raised among officials and employees of the county and an action brought to mandamus the election commissioner to accept filing for register of deeds on the ground that the following section in the state constitution was violated: "The legislation shall provide by law for the election of such county and township officers as may be necessary." Judge Hastings validated the act stating:

"No personal or property rights are in-

volved in this case. The sole question is whether the legislature in a matter involving only political rights and wholly within the scope of its powers, has violated the plain mandates of the constitution as to procedure. The court does not so hold. Many employees and deputies are on the county payroll and the constitutional requirement of election to a county office has never been held as a bar to their employment."

An appeal has been taken to the Supreme Court of the state. Friends of the plan are optimistic as to the outcome since Judge Hastings is seldom over-ruled.

In the interim since election the financial condition of the county (outside of bond sinking) has suffered a "nose dive." Revelations of waste the past summer have stunned the taxpayer. When the levy was made last August, the deficit in the general fund had increased over $300,000 in the fiscal year. Practically the entire citizenry—outside of officials and political appointees—look now to the manager form to stabilize the situation and restore the credit of the county. A number of counties in the state have under contemplation the circulation of petitions for the county manager plan which no doubt will result upon a favorable decision by the Supreme Court.

W. L. Pierpoint

TAXATION AND GOVERNMENT

Edited by Wade S. Smith

Homestead Tax Exemption.—In two recent issues of its bulletin,[1] the Civic Research Institute of Kansas City, Missouri, has carried summarized discussions of the arguments for and against the exemption of so-called homesteads from real property taxation. In view of the interest in homestead exemption laws at legislative sessions last year, and probable continued agitation for their support, the summary is here quoted at length.

Says the institute in explaining the operation of homestead exemption proposals in general, "A homestead exemption law would exempt from taxation a portion of the value of all owner-occupied homes. Usually the first $1,000, $2,000, or $5,000 of assessed value is exempted. Thus, if there were a $2,000 exemption, any home occupied by the owner assessed at $2,000 or less would be totally exempt. Any such home assessed at more than $2,000 would be exempt on $2,000. In some cases, the exemption applies only to certain taxes, such as state taxes, or to all taxes except those for bonds.

"Six states have homestead exemption. These, with the amount of exemption and taxes to which it applies, are:

"Florida—First $5,000 of assessed value. Applies to property taxes of all state and local governments, except taxes for debt incurred before passage of the amendment.

"Louisiana—The first $2,000 of assessed value. Applies to the state, special districts, counties, city of New Orleans (not other cities), New Orleans school district, and New Orleans levee board. Applies only to extent that replacement revenues are made available in the 'property tax relief fund.'

"Minnesota—The first $4,000 of value of homestead is assessed at 25 per cent of full value if platted or urban and 20 per cent if unplatted or rural. (Non-homestead property is assessed at 40 and 33 1-3 per cent in the same classes.) Applies to state and all local governments.

"Missouri—The first $2,500 of assessed value. Applies to state government only.

"West Virginia—Homesteads taxed at not more than 1 per cent of assessed value. (Non-homestead property taxed at 1 1-2 per cent if outside and 2 1-2 per cent if inside a municipality.) Applies to state and all local governments.

"In two other states, New Mexico and Oklahoma, homestead exemption amendments have been approved but laws are not yet in effect.

"In two others, North Carolina and Utah, amendments have been passed by the legislature and will be voted on by the people in November 1936."

Assembling the best possible data for the city of Kansas City, the institute calculates that a homestead exemption of $1,500 would reduce the total of taxable assessments by $54,620,000. At present tax rates, this would mean governmental revenue losses of approximately the following amounts:

Loss to city	$ 819,300
Loss to county	365,950
Loss to schools	710,060
Loss to state (from K. C.)	81,930
Total loss	$1,977,240

[1] *Kansas City Public Affairs,* Civic Research Institute, 114 West Tenth Street, Kansas City, Mo., Jan. 30 and Feb. 13, 1936.

The 1934 housing survey showed that there were 34,752 single-family homes occupied by their owners in Kansas City. There were 2,277 valued at less than $1,500, 8,488 at from $1,500 to $2,999, and 23,987 at $3,000 or more. These figures were used in making the calculation above. Calculations based on the 1930 census data were closely similar, according to the report.

"The probable exemption and tax reduction in all cities of over 10,000 population were determined for the city government only," the report proceeds. "The tax reduction, or loss, to the city government varied from 6 per cent in St. Louis to 70 per cent in Sedalia.

"In general, the larger cities have a smaller percentage of loss. This is due in part, at least, to the smaller percentage of people owning their homes and to the smaller values in smaller cities.

"It is interesting to note that the major part of the tax saving would not go to the owners of small homes. From 50 per cent to 96 per cent of the savings would go to owners of homes assessed at more than $3,000.

"It was found that the total tax loss would vary from 8 to 54 per cent for the county governments. In other words, some counties would lose but little while others would receive less than half of their former tax revenue. It is interesting that both the lowest and the highest losses would occur in relatively poor counties. The low loss in a poor county is due to the fact that only 9 per cent of the farms in that county were occupied by their owners.

"In brief," concludes the bulletin, "a homestead exemption of $1,500 would mean a heavy revenue loss to most governments in Missouri. Much of this loss would have to be made up from other sources."

Thus Missourians, who traditionally "have to be shown." Taxpayers and legislators in other states who are casting envious eyes at the six states where homestead amendments have been adopted would do well to ponder the facts presented by the institute, particularly that concerning the loss of revenue. Like tax limitation, homestead exemption means inevitably new taxes, or higher existing taxes for those who do pay.

Increasing Importance of Government.—Rising ratio of the national incomes spent by governmental agencies from 12.4 per cent in 1929 to 19.1 per cent in 1935 is tabularly reported in a recent issue of *The United States News*. Income, taxes, and percentage ratio is shown as follows:

	National Income[1]	Taxes[1]	Ratio
1929	$78,900,000	$ 9,800	12.4%
1932	45,800,000	8,100	17.8%
1933	43,600,000	8,100	18.6%
1934	49,900,000	9,500	19.0%
1935	53,700,000	10,250	19.1%

[1]Amounts in hundreds of thousands.

PROPORTIONAL REPRESENTATION

Edited by George H. Hallett, Jr.

Massachusetts P. R. Bills Given Hearing.—On February 13 a well attended joint hearing was held by the cities committees of the Massachusetts legislature on three bills which would make proportional representation available for the cities and the larger towns by petition and popular vote. Two of these were Representative Christian Herter's bills, house nos. 1014 and 1015, referred to in this department last month providing optional P. R. for councils and school committees and the corresponding system of preferential voting for mayors. One of Mr. Herter's bills covers Boston only; the other applies to other cities and towns. The third bill is house bill no. 982 introduced by Representative Rufus H. Bond of Medford on petition of John H. Chipman and others, to add the "Cincinnati plan"—the city manager plan with proportional representation—to the optional plans of government available for all cities except Boston by petition and popular vote. The most active support for this bill comes from a "Massachusetts People's Rule Association" organized in Cambridge with Professor Lewis Jerome Johnson and his son Chandler Johnson among its leaders.

Senator Theodore R. Plunkett of North Adams, who presided, and the other committee members listened all afternoon with courteous interest to proponents of the bills, among them Senator Henry Parkman, Jr.,

of Boston, a member of the charter commission which recommended optional P. R. for Boston two years ago, President James T. Barrett of the Cambridge city council, who told from first-hand observation of the happy experience with P. R. in the Irish Free State, and representatives of the League of Women Voters and other civic and taxpayers' organizations. The editor of this department conducted a demonstration P. R. election, with the legislators and audience as voters, in which Presidents Washington, Lincoln, Coolidge, Wilson, and Theodore Roosevelt were elected to a fictitious constitutional convention from a list of former presidents. No one appeared in opposition except a legislator who had confused P. R. with the Bucklin system of preferential voting used in Newton and withdrew his objection when the difference was explained.

On the morning of the hearing the Boston *Herald* carried an editorial entitled "A Hearing to Attend," which advised "Bostonians and other Massachusetts citizens who want better municipal government" not to miss the hearing and continued:

"Proportional representation, or P. R. as it may be more conveniently called, would not alone, of course, guarantee Boston and other Massachusetts cities of having honest, efficient, and intelligent government. No system is ever better than the men who operate it. But it is a device, as proved by Cincinnati's success, which enables every interest in a community to be heard and to obtain just consideration. Under Boston's present system of voting for city council by wards, a minority group may be spread so evenly throughout the city that it cannot gain a single spokesman in the council. Under P. R. this group, if it contained 30 per cent of the voters, would be represented by 30 per cent of the council's membership.

"Thus property owners, labor organizations, city employees, business associations, and other groups bound by ties of common interest would each be sure of having a voice in the city's affairs. Another advantage is the use of the preferential ballot which enables a citizen, after voting for the candidate who represents his interests most closely, to make a second choice. Ordinarily he gives second preference to some distinguished citizen. As a result, a city council elected by P. R. usually contains one or two of the city's ablest citizens.

"Admittedly the mechanics of P. R. seem complicated. Actually they are not. At the hearing today its advocates will give a practical demonstration of just how a P. R. election is conducted. It should not be difficult for any person of voting age to follow it."

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P. R. for Chicago?—The following is quoted from the Chicago City Club *Bulletin* of January 20, 1936:

"An editorial broadside captioned 'Abolish the City Council,' in the *Daily News* of January 17, emphatically advocates a revamping of the present system of local government with respect to the council. Reduction of the council to nine members and their election by proportional representation is recommended.

"This proposal coincides exactly with the findings of the City Manager Committee of the City Club as set forth recently in its report, 'A City Manager for Chicago.'

" 'The time has come to make a major issue of this change,' says the *News*. We quote:

" 'Chicago needs a new charter. A council of nine elected from the city at large by proportional representation would restore free discussion of public issues. Its members would speak for great groups of opinion. Municipal policies would be determined, not by deals and trades based on the peanut politics of fifty wards, but by consideration for interests city-wide. In the clash of opinions in such a council there would be enlightenment for citizens. Local issues again would become lively issues. Voters could take sides as their informed judgment guided them. Responsibility would be centralized, but under popular control. Democracy could function intelligently.' "

The City Club report referred to devotes twelve pages to a consideration of P. R. with special reference to the problems of Chicago.

GOVERNMENTAL RESEARCH ASSOCIATION NOTES

Edited by Robert M. Paige

New York Citizens Budget Commission.—The commission is a nonpartisan, nonprofit-making body, organized in 1932 with the primary object of budget economy in New York City. It continues its studies of the city

government twelve months in the year. It aims for constructive economies, and is supported by a council of consultants composed of representatives of 150 civic organizations.

The city has adopted four annual budgets since the commission was established. The first, for 1933, was $110,000,000 less than that for 1932. The aggregate of the amounts by which the budgets for 1933, '34, '35, and '36 were severally less than the 1932 budget is approximately $360,000,000. Many of the reductions making up this great saving were those recommended by the Commission.

The first work of the Commission was to aid the city in meeting the 1932 financial crisis. Following a survey of the municipal government, it recommended specific economies which, while reducing expenditures, did not deprive the public of essential city services. This preliminary activity was so successful that the city administration, in 1933, requested the Commission's chairman to head a municipal economy committee appointed by the mayor and made up of city officials and outstanding citizens. The Citizens' Budget Commission worked in conjunction with the economy committee and recommendations for decreases totalling $35,000,000 were the basis of many of the administrative economies effected in the 1934 budget.

The Commission drafted and sponsored the local law which gave New York City its executive budget. This ended antiquated and haphazard budget-making methods and placed responsibility for the preparation of the annual budget directly on the mayor. Another Commission-sponsored law, giving the city a capital outlay budget, corrected the old system of appropriating money for public improvements without first considering their relative importance. This reform, in addition, prohibits the authorization of any public improvements until money for their completion is assured.

The Commission carried out a complete study of the city's eleven separate pension systems. This analysis revealed that only four of the funds were on a sound or actuarial basis. Further, it was found that the contributions to the funds from beneficiaries range from nothing to 45 per cent, while the public contributes through taxation 64 per cent of all pension costs. The Commission at present is pressing for full pension reform.

A study of the administrative costs of the courts in New York City has been made by the Commission for a special committee of judges, lawyers, city officials, and business men. This work included individual examination into the salaries, titles, and duties of 2,800 court employees. Detailed proposals were made for improving the administration of justice, and for savings aggregating $2,700,000.

The Commission has been active in work for revision of the city's charter. In reports during the past two years it has pointed out over-lapping functions in the city, county, and borough governments, with resulting waste of public funds. Detailed proposals for full reforms of the city's governmental structure have been submitted by the Commission to the existing charter revision commission.

In a series of reports the Commission revealed extravagance and waste in the five county governments within the city. It proposed a complete reorganization, and the issue went before the people in a referendum in November 1935. The result was an overwhelming victory for this long-needed reform.

The Commission led a successful fight last year to postpone restoration of emergency pay cuts for city employees receiving more than $2,000 per annum. It has reported on the city's water supply, pointing out that, by an outlay of $20,000,000 for universal metering, the city could defer for several years construction of an additional water supply system, estimated to cost $273,000,000.

The Commission issues monthly a pamphlet for the information of the man in the street. This series is entitled "Food for Thought," and is published in an edition of 250,000 copies. The pamphlets are distributed by civic organizations, business houses, savings banks, and individuals throughout the city.

The chief aim of the Commission at present is to relieve the city of mandatory state laws affecting its finances. This legislation compelled the city, without option or choice, to appropriate items in this year's budget reaching the total of $219,366,000. This is 40.2 per cent of the city's tax budget. Bills to end this unfair interference with the city's financial affairs have been drafted by the Commission, and will be pressed for legislative enactment.

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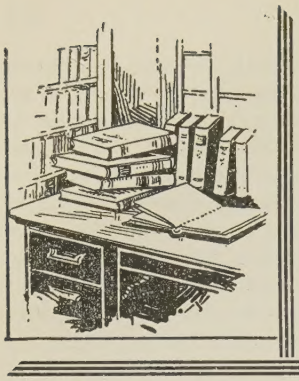

RECENT BOOKS REVIEWED

EDITED BY GENEVA SEYBOLD

Minutes of Evidence Taken Before the Commission of Inquiry on Public Service Personnel. New York, McGraw-Hill Book Company, Inc., 1935. 721 pp. $6.00.

The work of the Commission of Inquiry on Public Service Personnel, appointed late in 1933, consisted of two major tasks: (1) The collection and consideration of facts and opinions on the problems of personnel in the administrative, executive, and technical services of national, state, and local government and (2) presentation of a report with recommendations growing out of the findings.

This book is made up of testimony of witnesses appearing before the commission in the United States. Public and private hearings were held in Washington, New York, Chicago, Minneapolis, St. Paul, Seattle, San Francisco, Berkeley, Palo Alto, Los Angeles, and Richmond. As all parts of the country were thus represented, so were the witnesses a cross-section of those vitally interested or particularly cognizant of personnel problems—employees from the rank and file, administrators of the largest units, students of government, representatives of private industry, as well as governmental officials.

The testimony consists of both prepared statements and answers to questions put by members of the commission. A complete index serves to integrate the material.

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Government by Merit. By Lucius Wilmerding, Jr. New York, McGraw-Hill Book Company, Inc., 1935. 294 pp. $3.00.

This is a special study prepared for the Commission of Inquiry on Public Service Personnel by its assistant director of research. Drawing upon the material obtained through the hearings conducted by the commission and also data in the other special studies prepared for the commission, Mr. Wilmerding presents in this volume suggestions for a remolding of the American civil service so that "the offices of government may be filled with men of competence and character."

Being the expressions of opinion and conclusions of an individual rather than those of the entire commission, Mr. Wilmerding's recommendations naturally have more latitude than those of the commission as a whole. There is sharp penetration into the problems of classification, recruitment, promotion, salaries, and retirement. The commission has provided a long needed scientific diagnosis of what is wrong with our government personnel. Mr. Wilmerding's study offers prescriptions for the worst of the ills. Lack of a plan for action can no longer be used as an excuse for delay in reform.

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Guide to the Municipal Government, City of New York. Compiled by Rebecca B. Rankin. Brooklyn, Eagle Library Inc., 112 pp. $1.25.

The first guide to New York's municipal government published in more than a decade is this little volume prepared by Miss Rankin, librarian of New York's municipal reference library. The many changes in departmental organization in this period as well as new functions assumed by the city make an up-to-date manual more than welcome.

Miss Rankin has done a careful, thorough job of assembling and classifying a great mass of material derived from state and local laws, the city charter, the code of ordinances, legal codes of procedure, and annual reports of departments. Every department, bureau, and

commission in the city government is described in detail. Division of the material in sections by subjects is particularly helpful.

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The Administration of the Civil Service in Massachusetts with Special Reference to State Control of City Civil Service. By George C. S. Benson. Harvard University Press, Cambridge, Mass., 1935. 90 pp. $1.75.

Open Mr. Benson's sober analysis of Massachusetts civil service at almost any page and you will find something like this:

"Special groups like the organized veterans battle best in the dark."

"While an obligation on the country to care for those who were permanently injured by wartime service remains and while a general reward for men participating in the war might be justified, the phenomenon of granting an increasing number of favors to able bodied men who have had over a decade to adjust themselves to conditions of civilian life can no longer be explained on the basis outlined above. . . . One can almost call this the demand of one generation of Americans for preference over other generations."

Apropos of national events as such quotations may seem, they were written with one state in mind, Massachusetts, through whose laws the voice of the veteran runs like an insistent motif. "Either as an extraordinary sentimentality or as a bid for votes and salaries on the part of legislators and lobbyists," exemptions granted ex-soldiers have proved a strong factor in defeating moves to build up an efficient system of public servants.

State administration of civil service is scored by Mr. Benson. He finds that it "has aroused so much political antagonism and caused so much political friction that standards were lowered rather than raised."

That is one of his two main hypotheses. The other: "Unless some professional spirit be introduced, there may be just as much politics within civil service as outside of it." "A watchful duenna of employee rights" at present, the Civil Service Commission should study the progressive personnel policies of some of the commonwealth's great business firms. Intelligence tests, service ratings, compulsory retirement ages, and a change in the judicial review of removals are some of the specific suggestions advanced.

Always realistic and readable, Mr. Benson has spared no feelings in his often caustic exposition. At the same time he has pointed out motives and made apparently scrupulous efforts to be fair. If he is a shade more tolerant toward legislators and civil service commissioners than toward employee lobbies, that is perhaps forgivable in the light of the conditions he outlines.

Parallel conclusions for the political scientist and for the citizens of Massachusetts comprise his final chapter.

H. B.

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The Social Security Program. Analysis of the Federal Social Security Act and the Testimony Preceding Its Passage, With Special Application to Kansas. Topeka, Kansas Legislative Council, 1935. 107 pp.

The subjects dealt with in the social security act—old-age pensions, federal old-age benefits, aid to dependent children, maternal and child welfare, aid to crippled children, vocational rehabilitation, aid to the blind, public health, and unemployment compensation—are summarized in an analysis of the reports and discussions which preceded the passage of the act.

Since the material was prepared for use by the Kansas Legislative Council (twenty-five state senators and representatives who organize the state legislative program) as a background for consideration of the social security bill in Kansas, it particularly applies to the situation in that state.

It has since been revised to conform with the social security act as it was finally passed, and has been condensed and simplified for general distribution. The material is presented by questions and answers.

There are two booklets. The first presents a general summary of the whole program, and the second gives a detailed analysis of the federal old-age benefits and unemployment compensation.

H. D.

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A Housing Program for the United States. Chicago, Public Administration Service No. 48. 1935. 41 pp. 50 cents.

This report, prepared for the National Association of Housing Officials, is the original from which "Summary of a Housing Program for the United States" was taken. The summary, widely publicized in 1934, gave a

comprehensive review of the principles underlying a low-cost public housing program. The report makes available all the supporting arguments and details.

The survey on which the program was based was made by three European housing experts, Sir Raymond Unwin and Miss Alice J. Samuel of Great Britain and Mr. Ernst Kahn of Germany, with the coöperation of federal, state, and local officials of nearly forty American cities, in the fall of 1934.

The report names the trend towards smaller sized families as one of the chief reasons for need of more houses. While the population in the United States increased only 16 per cent during the last intercensus period, the number of families increased 23 per cent. Added to this is the necessity for slum clearance, demolition of some deteriorated properties, and reconditioning of others.

Other subjects covered by the study are functions of the public housing agencies (national, state and local), financial policies, types of developments, location and design, housing management, selection of tenants, and housing in city buildings.

The need for correlated planning between private and public housing programs is especially stressed. The report recommends that the present emergency program be broadened into a permanent housing program.

H. D.

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Digest of State and Territorial Laws Granting Aid to Dependent Children in their Own Homes; Digest of Old Age Assistance Laws of the Several States and Territories; Digest of Blind Assistance Laws of the Several States and Territories. These digests in tabular form, all as of December 1, 1935, have been prepared by the Works Progress Administration and may be obtained by applying to that agency in Washington, D. C.

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Outline of Governmental Organization Within the Cities of London, Paris and Berlin with Explanatory Charts. By Sarah Greer. New York, Institute of Public Administration, 1936. 41 pp. mimeo.

Any study of possible plans for simplifying the local government of large cities in this country naturally leads to inquiry regarding how large cities are governed abroad. Miss Greer's study is a clear exposition of the complicated governmental structure and functions of London, Paris, and Berlin with special reference to the powers and duties of the chief executive. The relation of the district or borough governments to the central government is specially stressed. Three excellent organization charts supplement the text.

GOVERNMENTAL RESEARCH ASSOCIATION NOTES

(Continued from Page 193)

The Commission generally maintains active interest in all of the city's operations, acts whenever possible in coöperation with city officials, and makes public its reports and findings in frequent releases to the press.

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Los Angeles City Bureau of Budget and Efficiency.—Budgeting, in which the Bureau plays an important investigational and advisory role, is viewed not only as an annually recurring task but also as a continuing process with year-round fact-finding and recommendations, and it is noteworthy that, unlike the experience of many cities in the past few years, there has been no short term borrowing or warrant registration in Los Angeles.

During the past year, survey reports have been submitted by the Bureau upon the bureau of construction of the department of public works and the Los Angeles memorial coliseum. Extensive investigations and a preliminary report have been made in connection with a proposal to institute a system of fees and charges which would allow reimbursement to the city for the cost of special and standby services by those benefiting. Surveys now in progress include the humane department, the right of way and land bureau, and the bureau of assessments of the department of public works, and the matter of salaries throughout the entire service.

The elaborate and comprehensive bureau report of 1934, entitled "A Study of Local Government in the Metropolitan Area within the County of Los Angeles," is now the object of considerable attention on the part of a special citizen committee of twenty-one members appointed by Mayor Frank L. Shaw for the purpose of determining the best course of municipal action.